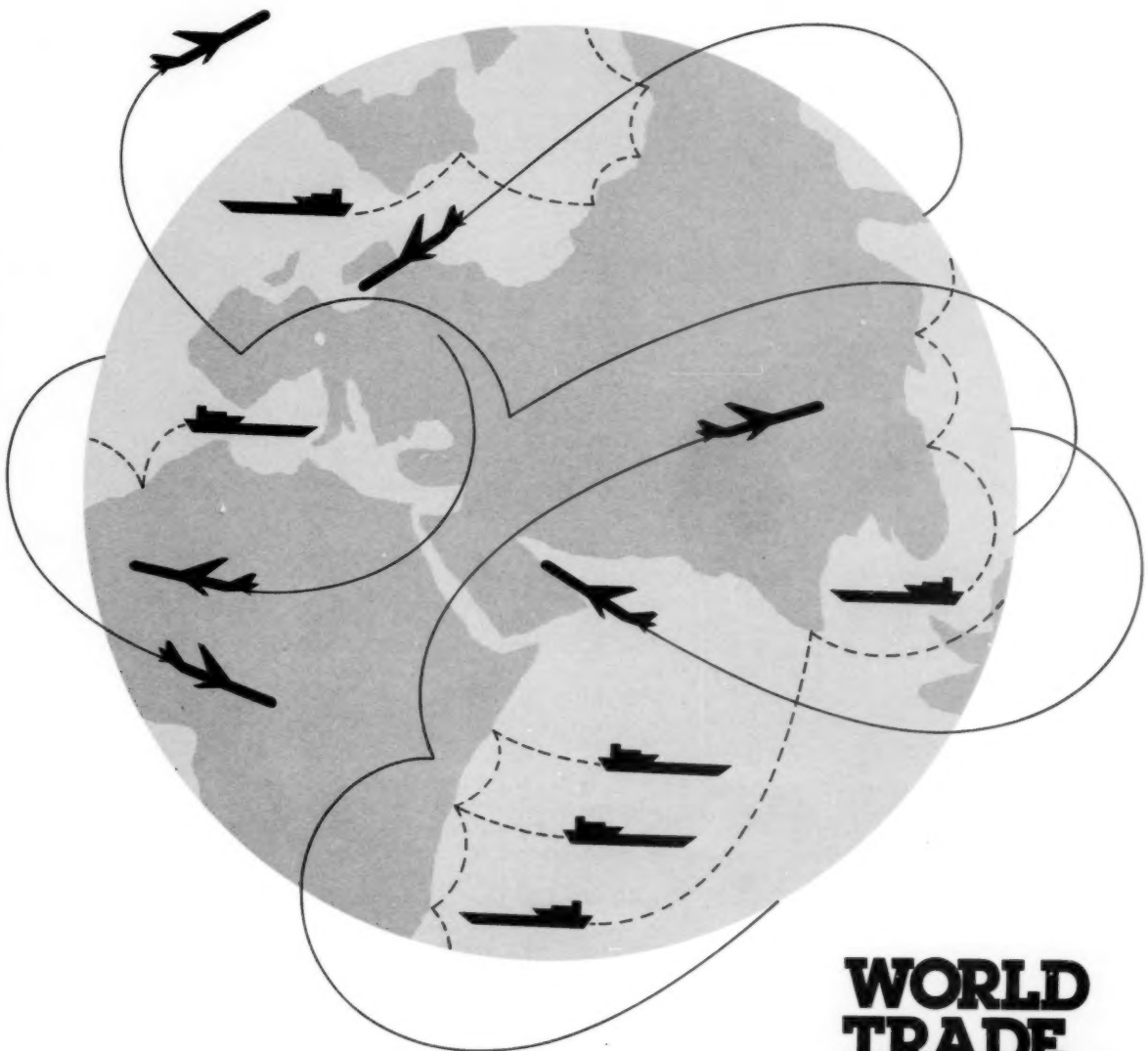
COMMERCE AMERICA

U.S. Department of Commerce / August 1, 1977



WORLD TRADE OUTLOOK

COMMERCE COMMENT

Revitalizing The Shoe Industry

(This column was prepared by Under Secretary of Commerce Sidney Harman.)

There is new hope today for thousands of workers in the troubled American shoe industry.

At President Carter's direction, the Department of Commerce has launched a bold new program aimed at saving the jobs of some 80,000 employees of shoe manufacturing firms injured by a flood of shoe imports.

The innovative program is designed to improve the competitive ability of an estimated 150 trade-injured shoe manufacturing firms located in 36 states. Their payrolls, amounting to millions of dollars annually, are often critical to the economies of scores of communities. The impact of plant closings already has been widespread: in the past eight years the number of domestic shoe producers has dropped by nearly 40 percent and employment in the industry by about 30 percent.

The new Commerce Department program will help arrest this decline. Its principal feature involves teams of experts who will thoroughly investigate a firm's capabilities, make detailed analyses of both its strengths and its weaknesses, and develop a well-rounded strategy for restoring its competitive ability.

The teams, drawn from the private sector, will consist of from two to five experts in such fields as management, production, marketing and finance. After studying a firm's situation, the team may suggest a recovery plan that involves new management initiatives; production, technology, or marketing improvements; worker-management innovations, or a combination of these factors. Where a firm needs additional expertise, government will assist through management development and technical training courses.

The program also will enlist the cooperation of a number of major retailers of shoes who have agreed to direct some of their orders to the affected firms. The increased production will provide the manufacturers with economies of scale that will further enhance their competitive ability.

Such are the broad outlines of what the program *is*. Equally important is what the program is *not*.

First, it is *not* a permanent program. It is strictly limited to three years' duration. The government will do its job and then get out.

Second, it does *not* set a precedent for government assistance for other industries injured by imports. The President has made it clear that this is to be an experimental program, on a one-time trial basis. Government will be operating in a new role—that of temporary facilitator of industry growth and reconstruction. At the end of three years, a thorough assessment of the results will be made and conclusions developed.

Third, it is *not* "another government giveaway" program. It is an *investment* in increased productivity, modernized plant and equipment, and improved management and technical capabilities. We expect it not only to halt the decline in employment in the footwear industry, but actually add several thousand new jobs over the next three years. It is especially important to note that of the program's estimated cost of $56.3 million, about $42 million will be in the form of loans and guarantees that are subject to recovery by government. The training programs and the work of the consulting teams are expected to cost about $14 million.

Fourth, the program will *not* have an appreciable effect on the cost of shoes to consumers. A healthy, revitalized U.S. shoe industry should be able to produce both better and cheaper products. Also, we will still have a high level of imports to spur our domestic producers to increase productivity.

Fifth, it is *not* an elaborate, complicated program that requires a vast bureaucracy to administer or that will take months to get under way. It will be run by personnel and agencies already in place. Commerce's Economic Development Administration is ready now to certify as eligible for assistance those firms that have been injured by imports. We are ready when the firms are. For information on how to proceed, they need only to pick up their telephone and call 202-377-2966.

Sixth, the program does *not* violate the principles of free trade to which this Administration is committed. As President Carter has emphasized, "Over the long haul, the solution to difficulties in the shoe industry lies not in the restriction of imports but elsewhere — in innovation and modernization of our own production facilities and the financing to make these possible." This program is responsive to that Presidential directive.

For management and labor, the program is both a challenge and an opportunity. Only they can make it work. Only they can translate the blueprints provided by the consulting teams into more efficient plant layouts, more productive work practices, improved marketing strategies, and sounder financial structures. Government can't do these things for them. But they will have the opportunity to make their operations among the most efficient in the world. The technology and the skills are available. Management and labor should utilize them to the fullest.

So this is a program in the best tradition of government assistance that serves not just a special interest, but the national interest. We don't want more shoe workers losing their jobs and drawing unemployment compensation that means more taxes for everybody. We don't want more plant closings that hurt the merchants and the entire economies of communities everywhere.

Rather, our determined aim is for a revitalized shoe industry that contributes to the prosperity of all Americans, and that proves once again that American business and American workers are unexcelled in meeting the competition at home or abroad when fair rules are fairly applied.

Sidney Harman

COMMERCE AMERICA

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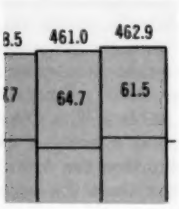

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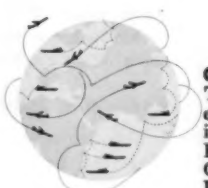

COVER: This semi-annual special World Trade Outlook issue summarizes the current economic trends and outlook for U.S. sales in major trading nations and regions. Basic information is from U.S. Commercial Officers abroad, analyzed by Commerce Department trade specialists.

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Deficit Reduced By $20 Billion; Growth Forecast Altered Slightly

This column was prepared by Commerce Chief Economist Courtenay Slater, in collaboration with staff economist Martha Davis.

Dr. Slater

The federal deficit for fiscal year 1977, estimated at $68 billion in the cold of February, had melted to $48 billion before the Fourth of July. Meanwhile, the Office of Management and Budget (OMB) estimates of the deficit for 1978 have grown by $4 billion to $61.5 billion. The Administration's mid-year budget review of July 1 reflected lower spending estimates and changes in tax policy for 1977—much of it previously announced in April—and also set forth new estimates of economic performance over the next 18 months.

The July forecast for the economy through 1978, though slightly less sanguine than the February projections, continues to indicate a growth pattern consistent with the Administration's objectives of bringing the unemployment rate below 5 percent and the budget into balance by the end of the decade.

The chart compares the July 1 budget outlay and receipt estimates for fiscal years 1977 (which ends September 30) and 1978 to those made in the January budget of President Ford, the first Carter message in February, and (for 1978) the first concurrent Congressional budget resolution. President Carter's February budget figures were assembled in the first few weeks of the Administration and incorporated a major short-run economic stimulus program. Changes in the totals were first published in April, after part of the stimulus package had been withdrawn. The July budget review contains no further major fiscal policy shifts, but incorporates revised program estimates in some categories and technical reestimates.

The withdrawal of the proposed $50 rebates to taxpayers and the accompanying cash payments to social security recipients and others is mainly responsible for the lower 1977 deficit estimate. The other components of the President's stimulative package, as modified by Congress — the permanent tax reduction recently enacted and the countercyclical job creation programs—account for $3 billion of the deficit in 1977. Together with the further extension of temporary tax reductions first passed in 1975, these items account for $25 billion of the 1978 deficit.

In addition to the rebate withdrawal, the budget revisions reflect revised assumptions about the economy's performance, technical corrections of tax projections, and a generally slower rate of government spending than was earlier anticipated. These estimates assume passage of the energy package as proposed by the President; this raises the deficit slightly for fiscal year 1978 but would not affect it thereafter, as its spending and tax provisions offset each other.

Economic assumptions

The projected rates of inflation, unemployment, and growth are important assumptions for estimating federal receipts and outlays. Receipts vary sharply with changes in income and employment and some outlays are legally or functionally tied to economic variables. Compared with the assumptions made in the Ford budget last January and those in the February Carter budget, the latest economic projections are somewhat less optimistic. Most of this was anticipated in the April revisions, however. The assumptions used by Congress as a basis for its first budget resolution are a bit gloomier and help account for the larger Congressional estimate of the 1978 deficit. (See table.) The Director of the Congressional Budget Office (CBO) recently indicated that the Administration's latest forecast is at the upper end of the CBO's current range of estimates of real growth.

Average real growth of at least 5 percent through 1980 and moderating inflation are crucial to the Administration's goals for 1981, which include an unemployment rate below 5 percent, an inflation rate in the 4 percent range, and a balanced budget.

Outlays

Expected federal outlays of $406.4 billion for 1977 are $0.9 billion below the April and $10.2 billion below February estimates, bringing the spending total below that proposed in January by President Ford. The largest single change is a $3.2 billion saving from the withdrawal of the proposed cash payments included in the stimulus package. Outlays for national defense, water resources construction projects, and community development grants are proceeding more slowly than scheduled. Delays in Congressional appropriations for training, employment, and higher education have occurred, and some costs are actually lower than expected, including those for civil service retirement, health care, and mortgage credit programs.

Among functional categories, the defense spending slowdown lowered the February estimate by $2 billion, and improvements in handling foreign military assistance funds cut $1.1 billion from that total (much of which is reprogrammed in the 1978 budget). Cost estimates have been lowered for 1977 for Medicare-Medicaid and the Export-Import Bank. Fiscal year 1977 spending for education, employment and training programs is now below the level anticipated by President Ford.

ECONOMIC ASSUMPTIONS IN THE BUDGETS

	1977*				1978*			
	Ford Jan	Carter Feb	Congress May	Carter Jul	Ford Jan	Carter Feb	Congress May	Carter Jul
Growth of real GNP (percent)	5.2	5.4	4.8	5.1	5.1	5.4	5.1	5.3
Growth in CPI (percent from Dec. to Dec.)	5.3	5.3	6.6	6.9	5.2	5.2	5.5	6.1
Unemployment rate (Annual avg.)	7.3	7.1	7.2	7.0	6.6	6.3	6.5	6.3
Interest rates (90-day Treasury bill)	4.4	4.6	5.0	4.9	4.4	4.6	5.2	5.0
Corporate profits (billions of current $)	172	173	169	173	194	197	188	199

* Calendar years

More rapid than expected growth of employment and reduction in unemployment accounts for the lower estimates for unemployment benefits and for countercyclical revenue sharing. Despite expected higher interest rates, the lower deficit should decrease federal interest payments from the February estimate.

There are only two major upward revisions in outlays for 1977. One is a rise in farm price support payments due to farm price declines, which together with the cost of a national grain reserve adds $1.6 billion to the February totals. The second increase is in social security and railroad retirements benefits, which are tied to the higher than expected inflation rate.

Fiscal year 1978 spending is now expected to be $4.4 billion higher than reported in February, and $23.7 billion above the amount projected in the Ford budget. Much of the increase over the Ford budget comes from public service employment and training programs, local public works-development grants, countercyclical revenue sharing, and maintenance of the school lunch program. The largest February to July increase is a $2.1 billion rise in social security payments, due to more rapid inflation and legally-mandated broadening of eligibility. Other substantial increases result from continued higher levels of farm price supports, provision of a strategic petroleum reserve, and reorganization of military assistance funds.

Major 1978 budgetary savings over the February estimates are expected to come from lower unemployment insurance payments as the economy improves, and lower loan outlays by the Export-Import Bank.

All 1978 figures are of course subject to the action of Congress, which has not yet passed all appropriations bills. The outlay target passed in its May resolution was about $2 billion below the latest Administration total; the final budget resolution is scheduled for a mid-September vote.

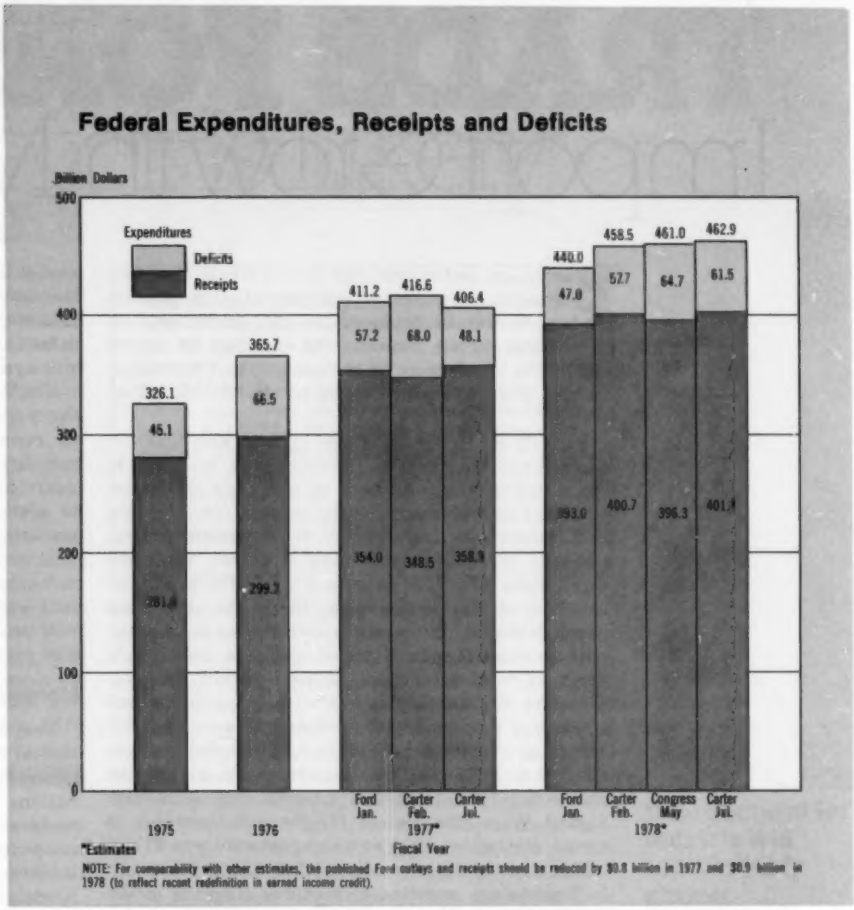
Receipts

The $9.8 billion upward revision in fiscal year 1977 receipts, to $358.3 billion, is largely due to the $8.2 billion in tax payments on 1976 individual incomes which will not now be rebated. Revised economic assumptions and technical reestimates have also raised revenue estimates. The Tax Reduction and Simplification Act passed in May incorporates a somewhat larger increase in the standard deduction than the President had proposed and also contains a new employment tax credit. These additions will reduce receipts by $1.4 billion as compared to the estimates.

Corporate income tax receipt estimates have been scaled down by $2.6 billion, almost all of it due to technical reestimates. (The President's withdrawal of the business tax reductions contained in the stimulus package was offset by the new employment tax credit referred to above.)

There are only two significant differences between the February and July estimates of 1978 revenues. Excise taxes will rise an extra $3.4 billion, assuming passage of the oil price equalization tax of the energy package. Corporate profits receipts have been revised downward, again through reestimates. Any tax reform proposals announced and passed this fall could change the amount and composition of 1978 revenues, however, and could make significant changes in future years.

The President's energy program would account for $1.5 billion of the 1978 deficit if passed in its original form. Its actual impact on the deficit, by changing outlays and taxes directly and through its effect on the economy, will depend on the version finally passed by Congress. The 1978 impact may be small. However, Congressional moves to grant tax exemptions and extra expenditures not in the Carter package could add to the deficit in future years.



OUTLAYS REVISIONS BY MAJOR CATEGORY

(Billions of dollars, fiscal years)

		Ford	Carter Feb	Carter Jul
National defense	1977	100.1	100.1	96.9
	1978	112.3	111.9	113.0
Energy, natural resources	1977	17.1	17.1	15.5
	1978	19.7	20.5	21.7
Agriculture	1977	2.9	2.9	4.8
	1978	2.3	2.3	4.1
Community development	1977	7.7	8.0	7.5
	1978	7.9	10.0	9.7
Education, employment, training	1977	21.1	22.2	20.7
	1978	19.4	26.5	26.9
Income Security	1977	137.2	140.7	137.5
	1978	143.1	145.6	146.5
Revenue Sharing	1977	8.9	9.9	9.5
	1978	8.1	9.7	9.6

TRADE FORECAST
Import Growth May Slow

Barring an unforeseen pickup in the rate of export growth, a continued substantial U.S. foreign trade deficit is in prospect for the second half of 1977. Imports are expected to continue to exceed exports by an unprecedented margin, and the deficit for the year will probably be in the $20-25 billion range.

Underlying this outlook are expectations that the performance of the U.S. economy will continue to be more buoyant than that of most key industrial countries and of many LDCs as well. As a result, U.S. demand for imports will remain fairly strong, although the growth rate may moderate, while demand abroad for U.S. exports is projected to expand relatively little. In addition, the dollar has been appreciating against some foreign currencies for the past year and a half, which tends to make U.S. products less competitive in some world markets.

In the first six months the merchandise deficit grew to a seasonally adjusted annual rate of $25.2 billion as exports totaled $119.9 billion and imports climbed to $145.1 billion. Imports were 20 percent above the 1976 total and exports only 4 percent higher. When the cost of freight and insurance is added, the import total at an annual rate was $154.9 billion and the corresponding deficit $35.0 billion.

Exports are expected to continue sluggish in the months ahead, reflecting a rate of economic expansion only slightly faster than in the latter half of 1976 in Europe and other major U.S. markets. A major drag on foreign economic growth is the lack of a sustained rebound in investment spending, an important source of foreign demand for U.S. manufactured exports. Agricultural shipments advanced strongly in the first half compared to the same period in 1976, but are likely to recede somewhat in the months ahead. Given these conditions, it appears that the rise in total U.S. exports will be about the same as the 7 percent advance recorded in 1976, and will again consist mainly of higher prices.

The rate of U.S. import growth should slow in the second half, even though the economy is expected to record further gains in coming months, as petroleum receipts level off and coffee imports turn down. Purchases of consumer goods will be affected to some extent by the recently negotiated orderly marketing agreements covering U.S. imports of color TVs and footwear. Food and beverage imports are not expected to rise much, if any, over high first-half levels. For the year as a whole, import growth will probably be slightly lower than the 26 percent rise posted last year.

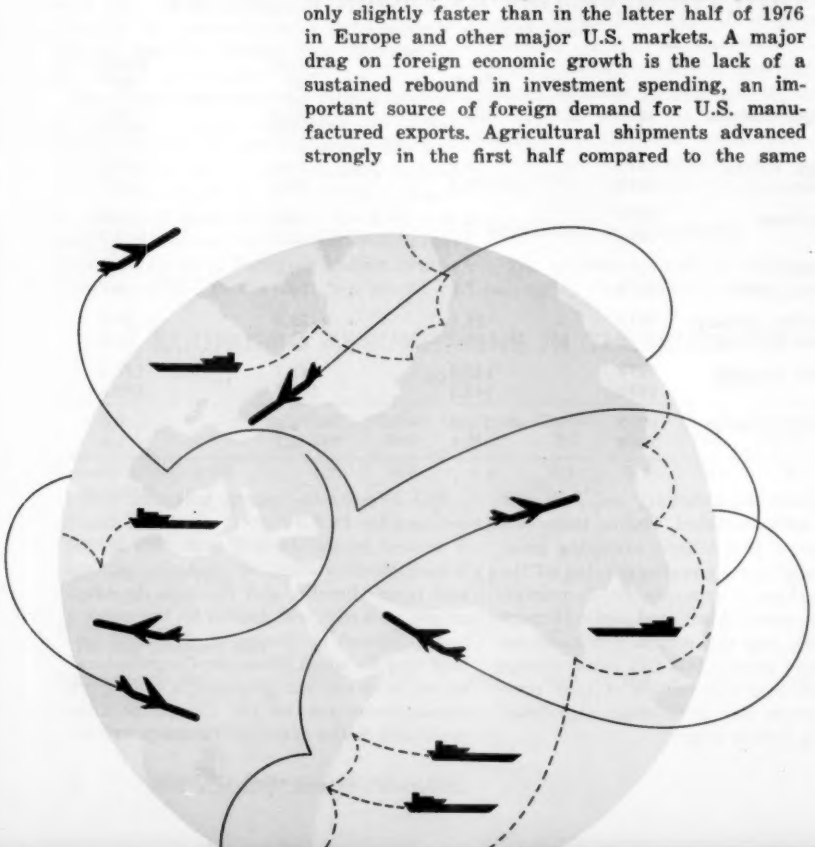
Nonfarm exports to rise

Despite modest economic growth and sluggish capital spending in most industrialized countries and generally stagnant demand from the developing nations, exports of machinery are expected to be moderately higher this year. Sales of electronic computers, cooling equipment, and electric power machinery and switchgear will lead the 1977 advance. A reduction in worldwide requirements for additional mining and offshore oil-drilling equipment will result in lower sales of such machinery after several years of rapid growth. Declines are also projected for sales of heating equipment, industrial tractors, and metalworking machinery.

Substantial sales of cars both here and in Canada will continue to spur deliveries of automobiles and parts to Canada in the second half of 1977. Automotive exports for the year as a whole to that country will be significantly higher than in 1976 as a result of greater volume and higher prices. Exports of trucks are likely to drop again this year from the peak level in 1975, when sales to Iran were unusually high. Although probably registering a decline for the year, deliveries of civilian aircraft are expected to pick up in the second half. Another increase is projected for aircraft parts and accessories.

Following a strong rebound in 1976, exports of chemicals are expected to increase, but the growth will not be as fast as last year's. Sales of organic chemicals and plastic materials should post modest advances. Shipments of manufactured fertilizers, after plummeting in value last year because of a steep decline in prices, are projected to remain about the same in volume. New production capacity around the world will keep prices at depressed levels.

Large stocks and slack activity in the world steel market have contributed to the decline so far this year in exports of U.S. steel mill products. Shipments are expected to continue well below 1976 levels in the second half. Until foreign steel production picks up again, sales of coal and steel scrap will



THROUGH 1977
But Big Deficit Is Likely

also remain sluggish. Among nonferrous metals, deliveries of aluminum should continue to increase in value as prices advance because of rising energy costs and shortages—especially of hydroelectric power in the Northwest. Conversely, ample world copper supplies and sluggish recovery in Western Europe's construction industry are expected to result in a third annual value decline in copper.

Agricultural exports should increase this year because of higher prices and strong demand from abroad for some farm products. The sharp rise in soybean export prices in the first half reflected the tight domestic supply situation and larger demand from Japan. Prices for soybeans are expected to ease in the second half, however, as larger supplies come into the world market. Brazil's 1977 soybean production was about 10 percent greater than last year's, while increased plantings should result in a bigger U.S. crop. Nevertheless, both the value and volume of U.S. soybean exports will be above 1976 levels. Similarly, cotton shipments are expected to increase in quantity and value as a result of strong demand and short supplies.

In contrast, bountiful U.S. and worldwide wheat production in exporting nations as well as in countries which are normally importers, will continue to result in lower export prices and reduced loadings. Exports of corn are expected to decline because of good crops in the USSR and the recovery of Northern Europe from last year's drought. These two areas accounted for almost all of last year's U.S. gain.

Petroleum imports to level

Purchases of petroleum, after a sharp expansion which contributed substantially to the first-half import surge, are expected to show little further growth in the second half of the year, as increased prices are likely to be offset by reduced quantities. Higher prices will result from the decision of Saudi Arabia and the United Arab Emirates, which account for one-fifth of U.S. purchases, to raise their prices in line with the other OPEC countries, and also from increased premiums on some higher quality crudes. The volume of petroleum imports, however, should drop off in the absence of the unusual demand conditions and the heavy inventory accumulation which occurred in the first half, and as domestic crude oil production rises with the opening of the Alaskan pipeline. Despite the expected leveling in the final half, petroleum imports for the year should be about 30 percent higher in value than in 1976. Natural gas imports from Canada will remain unchanged at controlled limits, but the value of these receipts will be boosted further by an announced 16 percent price increase in the fourth quarter.

Imports of other industrial supplies should generally continue to advance with sustained recovery in U.S. industrial production and residential construction. Steel receipts are expected to remain well over last year's level as European suppliers, aided by reduced prices, increase sales substantially in this market. Lumber imports will continue to expand sharply after growth last year as a result of the rebound in housing starts. Purchases of nonferrous metals, particularly aluminum and tin, should also be quite buoyant. Copper imports, however, will be somewhat limited by high stocks and weak prices.

This forecast of U.S. foreign trade for the rest of 1977 was prepared by the Commerce Department's Office of International Trade Analysis. Current economic conditions and the outlook for U.S. trade in the majority of countries with which U.S. firms do business are presented on pages 6–48. The 69 regional and country summaries are based on up-to-the-minute reports from U.S. Foreign Service posts and other sources. A table on page 48 provides data on U.S. trade with countries not covered in separate articles.

U.S. demand for imports will remain fairly strong.

Receipts of passenger cars from Japan and Western Europe are expected to pick up sharply in the final half after expanding only slightly in January-June. Record breaking sales of these generally fuel-efficient autos, along with the need to build inventories of many newly introduced models, will accelerate these imports. Receipts of cars from U.S. subsidiaries in Canada, which are also selling well, will keep growing but at a comparatively moderate rate.

Imports of consumer electronics are likely to slow in the rest of the year after expanding rapidly for the past 18 months. Arrivals of color TVs from Japan, a major factor in the recent growth, will decrease as a result of the voluntary marketing agreement with that country which became effective July 1. Imports of CB radios, which leveled in the first half after a huge surge last year, may also decline in the remainder of the year because of high inventories and slumping sales.

Machinery imports should continue to advance steadily in value throughout the year reflecting moderate expansion in U.S. capital spending. With truck sales expected to remain at record levels, receipts of all types of these vehicles from Canada should continue to increase at a rapid rate. Truck imports from Japan, mainly light pickups, are unlikely to match last year's surge.

In the absence of another freeze in Brazil, coffee arrivals should be considerably lower, although still substantial in value in the remainder of the year as a result of declining U.S. consumption, high inventories, and subsiding prices. Other food imports, however, are likely to remain quite buoyant, reflecting continued high prices and demand for fish, cocoa, and tea as well as larger receipts of sugar, possibly at slightly increased prices.

CANADA

Slow Advance Continues; Consumers Keep Spending

The factors which have slowed Canada's economic recovery are expected to continue to be influential through 1977, according to Kenneth L. Fernandez, a Commerce Department trade specialist.

The federal government's ability to stimulate growth is being limited by unabated inflationary tendencies, which is viewed as the No. 1 problem. Federal authorities hope that improvements in the U.S. and international economic environment will boost Canada's economic growth.

Consumer spending, however, has remained strong, despite high unemployment. Markets for U.S. goods should remain attractive, although a drop in the exchange value of the Canadian dollar has made foreign goods more expensive. Economic activity in the various provinces will be highly uneven. In introducing new products or in expanding marketing efforts for old ones, U.S. exporters may find it advantageous to select among Canada's provincial markets carefully.

Real economic growth is not expected to surpass 3.8 percent in 1977. Unemployment may well stick around the 7.9 percent seasonally-adjusted rate reached in May, before turning downward. Although Canada's merchandise trade balance is expected to improve even further, there will be a continued current account deficit of almost $4 billion due to foreign debt service payments and travel deficits.

The Canadian dollar is expected to remain below par with the U.S. dollar for the year. Interest rates are expected to continue to move closer to U.S. rates, reducing the tendency to seek capital funds in the U.S. market and avoiding a return of the previous upward pressure on the Canadian dollar.

While Canada will benefit from the continued growth of the U.S. economy, the spillover effects will probably not be significant until toward the end of the year. Uncertainties regarding the general economic situation, high unemployment and idle production capacity, the cautious attitude of business as reflected in reduced projected capital equipment expenditures and the unsettling influence of the separatist movement in the Province of Quebec will continue to be a drag on the economy.

Real GNP, seasonally adjusted, rose 1.3 percent in the first quarter of 1977, an annual rate of 5.2 percent, following declines in the last two quarters of 1976. The strongest component of GNP growth was higher exports of goods and services, which increased 6.5 percent in constant dollars. Real merchandise exports rose 8.3 percent over the previous quarter, while real imports were up 1.3 percent.

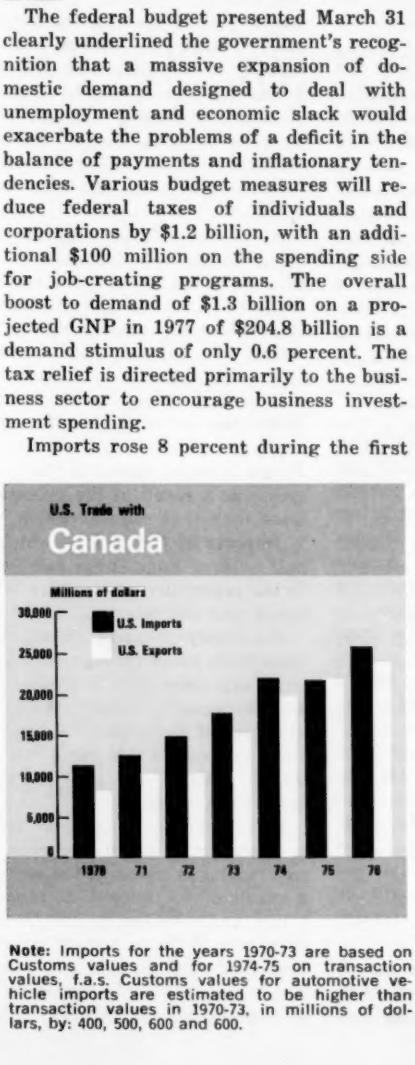
The need for the stimulus of additional investment has led to a modification of the administration of the Foreign Investment Review Act (FIRA), which should speed the consideration of proposed investments. The new rules, issued March 11, permit importers to establish "related business" manufacturing operations for import substitution without FIRA review.

Overall investment spending remained weak during the first quarter. Real gross fixed capital formation and investment in plant and equipment rose just 0.5 percent.

A Federal investment incentive program for the Montreal zone will provide at least $60 million in incentives over the next three years. This Department of Regional Economic Expansion (DREE) program is designed to generate a minimum of $300 million in investment in high-productivity rapid growth sectors such as metal fabrication, machinery, chemicals and scientific and electronic products. Funds administered under DREE programs are available to support foreign, as well as Canadian, firms interested in investing in selected areas.

The federal budget presented March 31 clearly underlined the government's recognition that a massive expansion of domestic demand designed to deal with unemployment and economic slack would exacerbate the problems of a deficit in the balance of payments and inflationary tendencies. Various budget measures will reduce federal taxes of individuals and corporations by $1.2 billion, with an additional $100 million on the spending side for job-creating programs. The overall boost to demand of $1.3 billion on a projected GNP in 1977 of $204.8 billion is a demand stimulus of only 0.6 percent. The tax relief is directed primarily to the business sector to encourage business investment spending.

Imports rose 8 percent during the first quarter, while exports increased 12 percent in that period. Sales by the United States and Japan led the rise, both increasing shipments to Canada by 10 percent. The largest increases were in automotive products, chemicals, beverages and agricultural and industrial machinery. Reductions occurred in imports of wearing apparel, coal, crude petroleum and nonferrous metals.



Note: Imports for the years 1970-73 are based on Customs values and for 1974-75 on transaction values, f.a.s. Customs values for automotive vehicle imports are estimated to be higher than transaction values in 1970-73, in millions of dollars, by: 400, 500, 600 and 600.

Exports to the United States grew 15 percent. Export growth was mainly in sales of automotive products, aluminum, lumber and iron ore. Sales of crude petroleum, newsprint, nickel and barley were down.

The 10 percent drop in the exchange value of the Canadian dollar since late 1976, making imports more expensive, the sluggish economy and a slowdown in the growth of personal income may dampen the general market for imports during the remainder of 1977. Nevertheless, U.S. Foreign Service posts in Canada continue to report some attractive trade prospects in various regional markets.

In Ontario, the Toronto area offers a strong market for new manufactured products, with particular emphasis on building supplies and hardware, chemicals, food processing and packaging equipment and material, pollution control equipment, and electronic components.

Quebec resources cannot meet the need for process control equipment, instrumentation requirements or automation and efficiency equipment. Some market potential also exists for products related to energy generators, pumps, compressors, converters and valves.

Manitoba is promoting investment in food processing plants to take advantage of locally produced raw materials. Construction equipment, farm implements and recreation equipment should be in demand.

Saskatchewan offers a market for U.S. products in food processing, mining and farm construction equipment and environmental protection technology.

Alberta authorities are promoting petrochemical, agricultural processing and forest product projects. Areas having potential for U.S. suppliers include earthmoving and construction equipment, capital goods for the chemical industry, drilling equipment, natural gas plants and gathering systems, and hospital and medical supplies.

Commercial prospects in Atlantic Canada include equipment for the coal mining industry, cost reducing catering and hotel/motel supplies, farm equipment for root crops, and equipment for the logging and lumbering industry.

The British Columbia economy, growing at a faster rate than Canada as a whole, should offer continued trade opportunities for U.S. exporters, particularly in the area of capital equipment for repair and modernization.

U.S. SALES PROSPECTS FAVORABLE IN LATIN AMERICA DESPITE PROBLEMS

Oil, Coffee Producers' Earnings Up

U.S. exports to Latin America are expected to grow by some 3 percent overall from a total of $17 billion in 1976 to $17.5 billion in 1977. This small anticipated increase is due to the estimated decline in U.S. exports to Brazil and Mexico, the two major markets in the area, according to Irene Johnson, a Commerce regional trade specialist. Exports to the Andean Common Market Countries (ANCOM) and Chile, the Central American Common Market (CACM) and Panama, and the Caribbean are projected to rise, resulting in an overall increase in U.S. sales.

As could be expected, the greatest increases will be in those markets benefiting from high oil and coffee prices. Coffee producers, notably Brazil and Colombia, are accumulating large amounts of unanticipated foreign exchange. In addition, the four oil producers—Venezuela, Bolivia, Ecuador, and Trinidad and Tobago—are expected to achieve higher growth because of increased prices and greater overseas demand stimulated by heightened activity in the industrialized world.

U.S. exports to ANCOM and Chile are estimated at $5.65 billion in 1977, up 13.9 percent over the 1976 levels. Projected figures for selected member countries show that U.S. exports to Venezuela are expected to rise 18 percent in 1977, to $3.1 billion. Colombia will take, perhaps, 20 percent more over the $703 million in U.S. sales made last year.

Mexico's economy is still feeling the effects of the Sept. 1 floating of the peso, which rocked the international financial community. U.S. sales prospects for 1977 are estimated at $4.5 billion, a decline of 9.8 percent from the previous year. Because of economic problems, Brazil has imposed various import restrictions to improve the balance of payments position—principally the result of increased prices of imported oil. Consequently, U.S. sales are expected to be some 5 percent lower than the $2.8 billion in 1976.

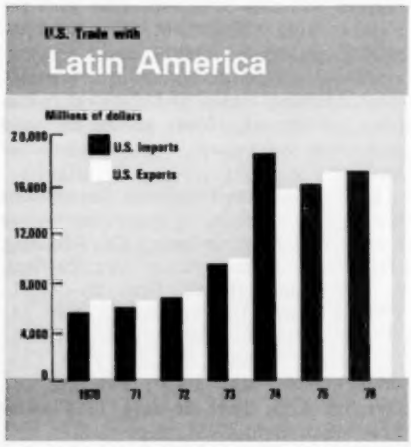
Sales to the Central America area may reach $1.7 billion, up 17.2 percent. This reflects somewhat reduced inflationary pressures which should boost consumer spending and encourage private investment. The region is moving ahead with purchasing plans in conjunction with several large infrastructure projects.

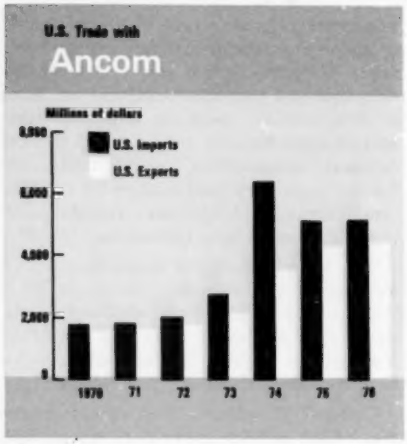
U.S. exports to Argentina are forecast to rise about 10.3 percent in 1977 to an estimated $600 million. The Argentine economy, encouraged by the government's recovery program, is expected to show more improvement in 1977.

The value of total global imports of the region has been increasing and will continue to do so. The increase in 1977, reflecting some inflationary trends and the need for vital raw materials and capital equipment to support existing and fledgling manufacturing, construction, communications and agro-industrial operations, will not be nearly as large as in 1976. The regional desire for continued economic growth will assure an expanding market for capital goods and prime materials. The global inflationary trends have in some instances benefited U.S. exporters, placing them in a more favorable competitive position compared with Japan and some European suppliers.

U.S. interest in investment in the area continues high, especially in manufacturing industries. The joint venture is an approach to foreign private investment favored in most of the countries of Latin America. In spite of increasingly restrictive regulations regarding percentage of foreign ownership, the area is still very attractive to firms willing to adapt new forms of cooperative operation and adjust to the new developments.

Market research and forward planning by the Commerce Department forecasts opportunities for sales of American goods. Various trade promotion activities directed to the Latin American markets include fairs, trade missions, technical sales seminars and catalog shows. In addition to a permanent trade center in Mexico City, Commerce trade promotion facilities are being increased in 1977. A new trade center in Sao Paulo was opened in May with a sellout show scheduled for September. Another trade facility is nearing completion in Caracas. The opening event of the new two-year "Sell in Venezuela" market campaign will be a Metalworking Trade Fair, Aug. 29-Sept. 3.





ANCOM

Markets Strong In All Countries Except Peru

U.S. exports to the Andean Common Market (ANCOM) and Chile are estimated to reach $5.65 billion in 1977, an increase of 13.9 percent over 1976 levels, Commerce international trade specialist Herbert A. Lindow reports. U.S. suppliers should encounter expanding markets in all countries except for Peru which is undergoing austerity. Highly favorable international prices for the commodity exports of many of these countries is a prime factor in the buoyant outlook for U.S. traders.

The ANCOM countries —Venezuela, Colombia, Ecuador, Peru, Bolivia—focused their attention at mid-year on sectoral development programs to accelerate the movement toward greater economic integration. Proposals were being discussed to set up a program for the automotive vehicle sector but no final agreements were reached. Proposals involve complex arrangements whereby each country would be assigned the production of one or more specific vehicles with arrangements for production and interchanges of important vehicle parts and components. Revisions in existing programs in metalworking and petrochemicals are also contemplated; new programs in electronics, steel and shipbuilding are to be considered. All programs must be drawn up and approved by the end of the year. Progress in approving new programs and moving ahead with existing ones is considered vitally important if ANCOM is to meet its economic integration and development objectives.

Colombia—U.S. exports to Colombia in 1977 are expected to increase 20 percent over the $703 million of 1976. Colombia's export earnings could expand by a huge 30 percent this year as long as the coffee boom continues and Colombia makes headway in exporting its manufactured products. Import liberalization should help accelerate imports. In addition, Colombia has

important infrastructure projects planned or under way. Major investments are being made in hydro-electric power, petrochemicals, coal and petroleum exploration. Much of this will be spent on imports. Other market opportunities can be found in agricultural commodities, agricultural and textile machinery, and equipment for telecommunications, health care and the printing and graphic arts industries.

The U.S. Embassy is organizing a U.S. Pavilion to promote the sale of goods in the above product areas at the International Fair of Bogota to be held next July. For details, write: Commercial Attache, U.S. Embassy, Cable 37, No. 8-40, Bogota.

Chile—U.S. sales to Chile should expand from $508 million in 1976 to about $580 million in 1977, despite a substantial decline expected in wheat sales. Total imports by Chile should reach about $2 billion.

Import liberalization continues. Duties have been slashed to a range of 10 to 35 percent; import controls have been significantly relaxed; payments for imports and other international financial obligations are proceeding normally; the balance of payments registered a surplus of over $400 million in 1976 and the anticipated deficit in 1977 seems to be manageable as Chile's improved financial health has helped to ensure ample foreign credit lines and loans.

As the Chilean economy continues to improve—growth rate estimated at 8 percent for 1977—U.S. suppliers should find opportunities for sales of mining machinery, equipment for the agribusiness and forestry industries, and, for the first time in decades, consumer goods. Except for private vehicles and a few luxury items, consumer goods of virtually all types may be sold to Chile.

The U.S. Embassy and the U.S. Chamber of Commerce in Santiago are organizing an exhibit for the Santiago International Trade Fair Oct. 27–Nov. 13. For more information, contact the U.S. Embassy, Commercial Attache, 1343 Agustinas, Santiago.

Peru—A decline in U.S. exports to Peru is forecast for 1977 with sales estimated at about $500 million, down from $580 million in 1976. The main cause is Peru's continuing balance of payments problem which has resulted in lower overall Peruvian imports. Economic austerity measures announced in June call for a cut of $200 million in government imports. Cutbacks in government expenditures, tight credit conditions, and a complex import control system which involves permitted lists, import licensing and quotas are likely to continue at least through 1977.

On the brighter side, Peru hopes that higher export sales of copper and fishmeal as well as less reliance on oil imports, now that domestic production has come on stream, will give a boost to foreign exchange earnings.

During the remainder of 1977 and possibly beyond, the government will only be authorizing imports of high priority items with the greatest emphasis on mining, ore processing and fishing and to a lesser degree, agriculture and livestock. Foreign financing will be indispensable if these projects are to come to fruition.

The United States will participate in the Tenth Pacific International Trade Fair, Nov. 16-27, at Lima. For further details, write: Robert A. Kohn, Commercial Attache, U.S. Embassy, Aptdo. 1995, Lima 100.

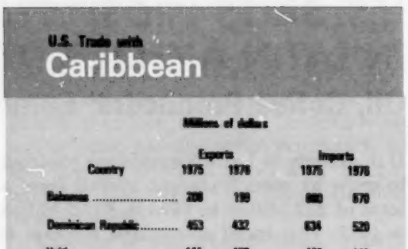
Bolivia—U.S. exports to Bolivia should increase by over 20 percent in 1977 to $160 million. The outlook for the remainder of the year continues to be positive. Gross domestic product is expected to increase by 7 percent; the balance of payments outlook is good; exports of minerals, particularly tin, are also doing well. Total imports are to rise moderately by 12 to 15 percent —largely reflecting the investment requirements of the hydrocarbons and mineral sectors. However, there is also good import demand for equipment used in road and airport construction, railroad rehabilitation, electrification, and agribusiness and agriculture. Many of these areas present excellent opportunities for U.S. exporters and engineering consulting firms to provide project packages combining U.S. technical expertise, high quality equipment and financing.

Venezuela—The Venezuelan import market should continue to grow at a minimum of 20 percent over the next few years. Total imports reached $6.8 billion in 1976, up about 25 percent from the previous year.

Overall, Venezuelan imports continue strong. Government imports for infrastructure and social development projects should remain at high levels, especially as the 1978 elections approach. General economic expansion will continue to generate private investment and, consequently, higher import needs for capital equipment.

U.S. exports are estimated to increase by 18 percent to $3.1 billion in 1977. The market continues to be especially good for metalworking equipment, construction, mining, materials handling equipment, agricultural equipment, process control equipment, plastics, rubber and chemical industries equipment, food processing and packaging equipment, and prefabricated buildings.

For 1977–78, the Commerce Department has a full schedule of export promotion events in Caracas including the following trade fairs: Metalworking, Aug. 29–Sept. 3; Telecommunications, Sept. 26–Oct. 1; Process Control Instrumentation, Nov. 14–19; Advanced Business Equipment, Dec. 5–10; Energy Systems, Apr. 3–8, 1978; Consumer Goods, May 15-20; Printing and Graphic Arts, June 26–July 1; Plastics Production Equipment, Sept. 4–9.


U.S. Trade with
Caribbean

Millions of dollars

Country	Exports 1975	Exports 1976	Imports 1975	Imports 1976
Bahamas	208	199	880	870
Dominican Republic	453	432	634	520
Haiti	144	150	186	148
Jamaica	381	285	308	312
Netherlands Antilles	228	248	1,558	1,170
Trinidad & Tobago	256	309	1,170	1,500

Source: U.S. Bureau of the Census.
Prepared by: Office of International Trade Analysis
Bureau of International Economic Policy and Research
United States Department of Commerce
June 1977

CARIBBEAN

Dominican Rep., Trinidad Offer Strong Markets

U.S. exports to the Caribbean area appear to be growing moderately—led by well financed development programs in the Dominican Republic and Trinidad, with a solid growing consumer goods market in the Bahamas, reports Frederic G. Kayser, the Commerce Caribbean trade specialist. The area's performance will be spotty, though, as Jamaica and Guyana are experiencing severe balance of payments problems, while Haiti and the Dominican Republic have the same problem to a lesser degree. Exporters can expect payments to be slow from most of the area—Trinidad and the Bahamas excepted.

Dominican Republic—The country continues to struggle with low prices for the main export, sugar, high import prices for energy needs, and inadequate electricity generation and distribution. The latter problem presents additional attractive export opportunities, however, to U.S. suppliers. The Dominican Republic continues to be the premium American market in the Caribbean, buying $432 million in U.S. goods in 1976. U.S. sales should increase by at least 15 percent in 1977.

The strong market will be enhanced by the government's desire to capture a substantial percentage of the Caribbean tourist trade. This means numerous construction and tourist related opportunities, besides a complete infrastructure for the north coast area near Puerto Plata. Other major projects include modernizing of the port of Haina and constructing a four lane highway between Santo Domingo and Santiago. A number of dams and irrigation systems also are planned. Food processing and packaging equipment and agricultural machinery and supplies are in demand.

Trinidad and Tobago—Trinidad's economy, based on high oil revenues, is the strongest in the Caribbean, and its develop-

ment program the most interesting. The program was refined to concentrate on several top priority projects: an iron and steel plant, a natural gas pipeline, polyester fiber, furfural and two fertilizer plants and expansion of cement production. Building should start on the steel plant soon. The pipeline has been completed and the Trinidadians are again considering production of liquid natural gas for export to the United States. Other trade opportunities are afforded by the infrastructural needs of the Point Lisas industrial area—water resources, electric power generation and additional port facilities. Trinidad is also seeking to provide better health care, education, and water and sewage processing facilities.

Bahamas—Total imports (excluding petroleum) increased by 21 percent in 1976 over 1975, with the U.S. market share remaining over 70 percent. Consumer goods continued to dominate, followed by organic and inorganic chemicals for production and export of pharmaceuticals. A World Bank loan for Nassau's water and sewerage systems offers additional export opportunities along with food processing and refrigeration equipment. The Bahamian Government is also seeking foreign investment in light industry that will provide exports, import substitution or tourist support.

Jamaica—Jamaica's severe economic condition is unlikely to improve significantly unless the country receives a considerable amount of foreign assistance over the next several years. The $600 million ceiling on total 1977 imports has been increased to $750 million. Consumer goods, especially luxury items, will suffer most, but agricultural equipment and supplies and raw materials still enjoy a substantial though reduced market. Payments will continue to be slow as foreign exchange is very scarce. U.S. exporters are advised to make sure their customers have obtained the required import license for all goods before shipping, and to use irrevocable letters of credit as much as possible.

Netherlands Antilles—The 1976–77 tourist season showed considerable improvement over the two previous years, so U.S. consumer goods will find a better market than they have enjoyed recently. Food products, clothing, automobiles and some machinery are especially strong. These exports can be best marketed through local agents, well versed in marketing techniques peculiar to the Netherlands Antilles.

Haiti — Drought has again hampered Haiti's agricultural production and caused serious electricity shortages. Its economy should improve, however, owing to major increases in foreign aid from both multilateral and bilateral sources to an amount of about $75 million in 1977. This assistance will have a positive effect on agriculture, transportation, public health, education and energy, and should result in increased export opportunities for U.S. firms.

CENTRAL AMERICA

Region In Rapid Growth, Led By High Coffee Prices

Spurred by high export earnings, primarily from the agricultural sector, the Central American Common Market (CACM)—Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua—appears well on its way to recovery from the adverse effects of the 1974 and 1975 world recession.

Led by the high world market price for coffee, the region is experiencing a rapid growth which is stimulating local economies and leading to healthy economic growth, according to Walter M. Bastian. The following capsulized country summaries indicate the Commerce specialist's reason for optimism in the region:

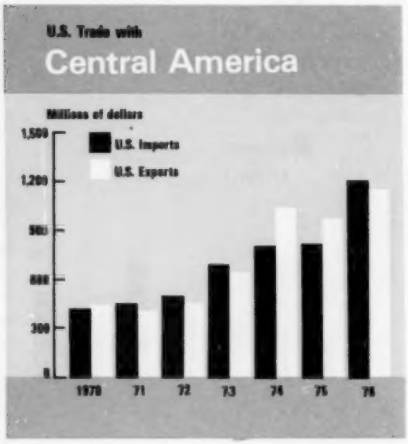
Costa Rica—Last year was a very good year for the Costa Rican economy; the gross domestic product was at $2.1 billion at year's end, up 5.5 percent from 1975. Inflation stood at 9 percent. The trade deficit was reduced to $185 million. This year should see real economic growth reach 6 percent. Export earnings are expected to rise to 26 percent, primarily as a result of coffee earnings.

El Salvador—In 1976, El Salvador's GDP was estimated at $2.1 billion, a growth rate of 5.5 percent, and 1977 should prove to be an even better year. The outlook for exports of coffee, sugar, shrimp and meat is particularly bright. Coffee receipts may yield as much as $800 million, about $500 million more than in an average year. The economic growth rate is expected to reach 7 percent with inflation held to about 7 percent.

Guatemala—Rebounding from the disastrous earthquake of February 1976, Guatemala recorded a 9.9 percent economic growth rate in 1976. This year, a banner year for agriculture, should see economic growth reach 11 percent. Exports, led by coffee, sugar and cotton, will approach $900 million. Of particular note is the entrance of EXIMBAL, the government's nickel mining company, into export marketing of nickel concentrate.

Honduras—As with the other CACM countries, Honduras is benefitting from sales of agricultural commodities. The first four months of 1977 show a substantial surge in value of exports. In April, international reserves stood at $188 million, 82 percent higher than at the end of 1976. Economic growth is expected to achieve 8 percent in 1977, up from 6.5 percent in 1976.

Nicaragua—Led by coffee, cotton, and sugar earnings, export earnings in Nicaragua are expected to increase by $100 million during 1977. The GDP, which hit $1.85 billion in 1976, an increase of 7 percent over 1975, is expected to reach $2.1 billion this year. Currently, liquidity is high in Nicaragua, due primarily to the 40 percent increase in export earnings over last year.



The United States has traditionally been CACM's most important source of imports. During 1977, U.S. exporters to the region will find good markets for capital and specialized equipment in the following areas: agriculture, electrical power generation, communications, health care and building and construction.

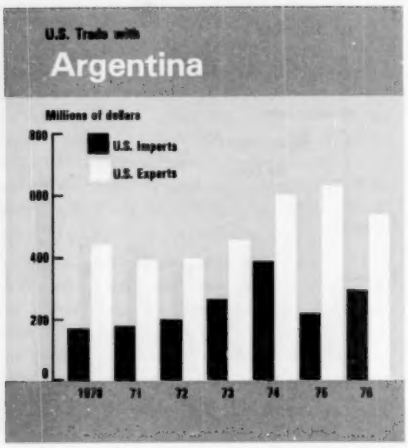
ARGENTINA

Recovery Program Enhances Trade Prospects For U.S.

U.S. exports to Argentina in January–May 1977 totaled $249 million, an increase of nearly 35 percent over the corresponding period of 1976. For the full year 1977, total U.S. exports are expected to approach a level of $600 million, according to Kenneth Hynes, a Commerce trade specialist.

The improvement in the trade outlook reflects the confidence in business circles, engendered by the Argentine Government's recovery program. Foreign exchange reserves are at an alltime high, in excess of $2 billion, the balance-of-payments outlook is favorable, and a trade surplus of some $500 million for 1977 is projected, due to the dramatic comeback of the agricultural sector which in the agricultural year 1976/77 produced the largest grain and oilseed crop on record.

The agricultural sector, stimulated by liberalization of government controls, reduction of export taxes, and a pricing policy geared to international price levels, has provided the backbone of the economic resurgence. The industrial sector, on the other hand, has remained depressed and shows little indication of growth in 1977. The Argentine industrial establishment requires modernization, and the govern-



ment has recognized this need by facilitating importation of capital goods through liberalizing payment terms. Also, a broad array of tariff reductions has been implemented to sharpen domestic industrial competitiveness and satisfy the consumer market.

On the domestic front, the government hopes that inflation can be restrained to about 100 percent for 1977, but many economists foresee a rate of 120 to 150 percent.

To curb inflation, the government has restrained wage increases and in March instituted a price freeze for 120 days. The price freeze reduced the rise in the wholesale price index to 3.8 percent in March, the lowest increase since April 1975. Government deficit spending, a primary cause of inflation, was cut back from 12 percent of the GDP in 1975 to less than 8 percent in 1976, and for 1977 the budget calls for a further reduction to 3 percent.

To attract new foreign investments, Argentina enacted a new foreign investment law in 1976, which has stimulated investment interest. In March 1977, the government repealed the regulation suspending capital repatriation and profit remittances for balance-of-payment reasons. The government also has settled many investment disputes inherited from the previous regime.

With improved access to foreign private and institutional banking sources, Argentina will have financing, which has long been in short supply. The Export-Import Bank and the FCIA have liberalized their policies vis-a-vis Argentina; the World Bank has resumed, and the IDB has increased, their lending operations. These developments should enhance U.S. export opportunities. Best prospects will continue to be capital goods and such intermediate goods as steel scrap and organic chemicals. Major projects for which international financing has been arranged or solicited include electric power, gas, pulp and paper, petrochemicals, road construction, and general industrial development.

BRAZIL

Trade Balance Improves As Exports Increase

Brazil is coping successfully with the recent strains on the economy caused principally by the jump in 1974—and since—in the cost of imported oil. While the government has taken hard decisions to hold imports down, export performance has strengthened steadily, bringing big improvements in the balance of trade deficit, according to James Blow, a Commerce marketing specialist. Figures recently released by the Finance Minister show the trade account in May closed with a surplus of $115 million.

As a result of the May outcome, the cumulative balance for 1977 (through May) switched into a surplus of $52 million. This compares to the first five months of 1976 when the trade account was in deficit by $1,493 million.

It appears that Brazil will be able to wipe out the trade deficit this year, as exports, led by coffee, will continue to increase dramatically. Some officials predict a surplus of $500 million, with the value of exported coffee at almost $4 billion, a 44 percent increase over 1976. Now that the balance of payments problem has been temporarily resolved, as coffee prices are expected to remain at their present level for the remainder of 1977 and into early 1978 when they should return to normal, the government has turned its attention to the very pressing problem of inflation.

As measured by the General Price Index, accumulated inflation for the first four months of the year was at 16 percent. The price index rise for May is widely estimated to be 3.2–3.5 percent, bringing the total increase for the first five months of 1977 to 20 percent.

In several sectors there is evidence of a slowdown in economic activity. Auto vehicle production through April was 292,000 units, 7 percent below the 1976 total.

Vehicle sales for this period are down 10 percent. In the heavy machinery sector the volume of orders was reportedly off 11.3 percent for the first three months of 1977 (compared to January–March 1976). First quarter sales of many electro-domestic products are down, particularly air conditioners (−29.5 percent in volume) and TV sets (−13.1 percent). Sao Paulo retail sales declined 2 percent in nominal terms from March to April.

There were indications of continued expansion in some sectors. Industrial consumption of electric energy in the Rio-Sao Paulo areas was up 13.5 percent for the first four months of 1977.

Steel production in the government-owned mills, which account for about 55 percent of total Brazilian steel production, was up 31 percent for the January–April period. Production from private mills increased 8 percent. This high rate of growth in the state mills, a result of new capacity, is expected to slow somewhat in the second half of the year. However, CONSIDER, the government agency that administers the state-run steel plants, is predicting a 20 percent increase to 11.1 million metric tons in overall 1977 Brazilian steel production.

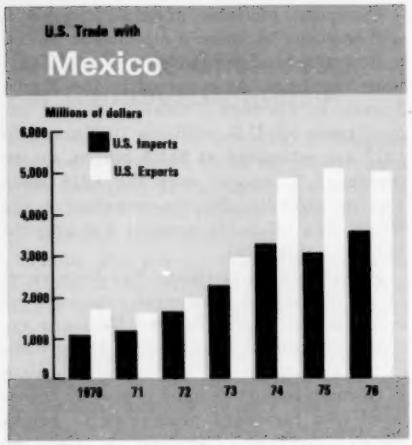
As for capital inflows and debt, Brazilian officials are saying that the current account deficit will be on the order of $4–$4.5 billion. By adding to the current account deficit the amortization of the debt ($3.5 billion), and deducting direct investments ($1–$1.2 billion) Brazil will need to borrow an additional $7 billion on the gross basis during the year. While in absolute terms the 1977 borrowing requirement seems large, compared to 1976 it could mean an improvement of around $3 billion. The Minister of Finance is confident that Brazil can raise this additional sum and estimated that the total foreign debt at year's end could surpass $30 billion.

Brazil recognizes the need for growth to be moderated in the next two or three years if inflation is to be kept under control, the balance of payments is to be further improved and a sound basis for longer term growth is to be established. In keeping with this view, it is projected that growth may be about 5 percent in 1977 and average no more than 6 percent in the remaining years of the decade.

MEXICO

Slow But Steady Recovery Seen For Trade With U.S.

Slow but steady recovery is the forecast for Mexico's trade with the United States for the next several months—as the economy gains ground after adjustments necessary because of the float of the peso and new measures of the Lopez Portillo



administration to stimulate industrial growth take effect.

A decline was registered in U.S. exports to Mexico during the first quarter of 1977 as compared to the same period of the year before, Commerce international trade specialist Frederick J. Tower points out. This decline, unusual in U.S.-Mexico trade, is due principally to the effects of the untying of the peso and its subsequent drop in value, a rundown in inventories and a decline in imports of foodstuffs, as well as the organization of Mexico's new presidential administration.

An additional important factor may have been the decline in industrial activity domestically which was accompanied by tight credit conditions and a reluctance to take on more dollar debt because of uncertainties over the peso exchange rate.

Mexico's sales abroad picked up substantially during the same period, due in large part to improved world prices for agricultural and mineral commodities (coffee sales value was up four-fold) without substantial increases in volume. Capacity not used to supply the domestic market with manufactured items was available to service export demand. This resulted in high export sales in several important categories: automotive sales were up over 200 percent; steel exports quadrupled; cement sales, up 75 percent.

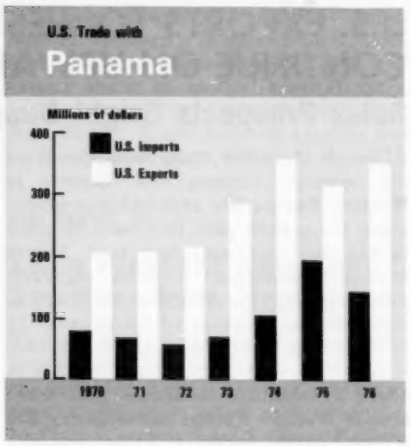
Foreign and private investment in Mexico is strongly encouraged by the administration, which points out that investment conditions are a known quantity and inquiries from investors are welcomed.

Additional regulations clarifying the controversial Patent and Trademark law which entered into effect in 1976 are awaited by the business community.

A new automotive industry decree has set the percentages of local content to be achieved gradually by manufacturers. The measure provides that companies in automotive manufacturing must generate at least half of their foreign exchange needs through the export of components.

The petroleum industry will perhaps be the most dynamic sector of activity for the foreseeable future. A pipeline is planned to carry gas from the Tabasco–Chiapas oil fields 800 miles to the U.S. border where existing lines will handle further distribution to the U.S. market. Opportunities for U.S. suppliers of a wide variety of equipment for petroleum exploration, drilling and pipeline equipment will be highlighted at the U.S. Trade Center in Mexico City Jan. 24–28, 1978, with a major exhibition and conference.

Additional events at the Trade Center are the Graphic Arts and Printing Equipment Exhibition, Aug. 15–19; Electronic Production and Test Equipment, Sept. 6–9; and a Machine Tool videotape and catalog event to be held at the U.S. Consulate General in Monterrey as well as at the Trade Center in Mexico City.



PANAMA

Development Projects Spur Prospects For U.S. Sales

The hoped for upturn in the Panamanian economy during the first half of 1977 has not materialized, reports Walter M. Bastian, a Commerce foreign trade officer. A variety of factors have interacted to severely hamper Panama's attempt to rebound from the economic crisis precipitated by the rise in petroleum prices in 1974. Prospects for U.S. exporters continue to be encouraging, however, as Panama's traditional preference for U.S. products, coupled with an ambitious development program based on a number of projects requiring capital equipment acquired abroad, should make Panama a priority target for companies' marketing efforts.

The rate of economic growth for 1976 was estimated to be lower than the disappointing 1.7 percent figure of 1975. The government has not been able to reactivate the economy through public expenditures, which have now become more limited as a result of a deteriorating financial position.

The private sector, under severe pressure from the slump in manufacturing and commerce, has not responded with the investment spending required for the success of the government's longer range development policies. The construction industry continues in its depression pending public and private investment in housing and other commercial real estate. The agricultural outlook is clouded by the continuing threat of drought—an extended dry season was followed by a rainy season with below average rainfall. The depressed world sugar price clouds the outlook for Panama's expanding sugar industry. Prospects therefore are not bright for achieving significant overall economic growth during 1977—it will clearly be well below the government's growth rate target of 6.7 percent.

In an attempt to spur the national economy, the Government of Panama in January announced a recovery plan to revitalize the economy through increased investments and employment.

Despite the present slowdown in business, continued sales prospects are good in such principal categories as industrial machinery and equipment, processed foods and grains, iron and steel products, electric machinery, chemicals and fertilizers.

About 40 percent of Panama's foreign exchange earnings and about 15 percent of its GNP are directly or indirectly attributable to the presence of the Panama Canal. The Panama Canal Company reports 12,280 oceangoing transits through the canal in fiscal year 1976, a daily average of 33.6. This figure represents a decrease in canal transits attributed to the continuing world recession and the reopening of the Suez Canal. During the same period, total Panama Canal net tonnage was 128.7 million. Principal commodities shipped through the canal were petroleum and petroleum products, grains and coal and coke comprising 18.7, 16.3 and 14.3 percent respectively of all commodities shipped through the canal.

The Panama Canal is of considerable value to U.S. trade. In 1975, approximately 12 percent of all U.S. waterborne trade used the canal route. Forty-five percent of all cargo moving through the canal came from the United States, while 23 percent was bound for U.S. ports.

As important as the canal is to U.S. trade, it plays an even larger role in the trade of Panama and some of the other Latin American nations. About 30 percent of Panama's foreign trade passes through the canal. More than 50 percent of the foreign trade of Nicaragua, El Salvador and Ecuador moves through the canal as does more than 25 percent of the shipments of many other Latin American nations.

Many analysts here and abroad believe that due to the canal's importance not only to U.S. trade but also to that of all nations, a new agreement will guarantee protection of the basic U.S. interest in the canal—an efficient operation that is open to the shipping of all nations.

U.S. EXPORTS TO WESTERN EUROPE CONTINUE ON UPWARD GROWTH PATH

Sales Prospects Bright Despite Slow GNP Rise

Although there are many dark clouds on the economic horizon, U.S. exports to Western Europe are expected to continue along the growth path they have followed so far this year, according to J. Robert Wilson, Commerce's specialist on European trade. In the first five months they registered an increase of 12 percent. In 1976 they grew 8 percent to $32.5 billion.

July 1 brought completion of what is in effect a 16-nation industrial free trade area in Western Europe encompassing 300 million people, with a gross domestic product about equal to that of the United States. The customs union of the nine-member European Economic Community was completed as the three new members —the United Kingdom, Denmark and Ireland—and the original six members took the final step of eliminating duties on their internal trade. Also, duties on most industrial trade were eliminated between the EEC and the seven members of the European Free Trade Association (EFTA)—Sweden, Norway, Finland, Switzerland, Austria, Portugal and Iceland. This facilitation of trade should continue to stimulate overall economic activity.

Despite not inconsiderable protectionist pressures, European governments remain committed to the ideal of trade liberalization. The trade pledge of the Organization for Economic Cooperation and Development was renewed once again at the June ministerial meeting. Moreover, at this meeting and at the London Summit Meeting in May, the governments expressed willingness to achieve substantial progress this year in the slow-moving trade negotiations in Geneva. The recent agreement between the EEC and the United States on a timetable for dealing with certain major aspects of the talks increases the likelihood that the negotiations will be successfully concluded next spring.

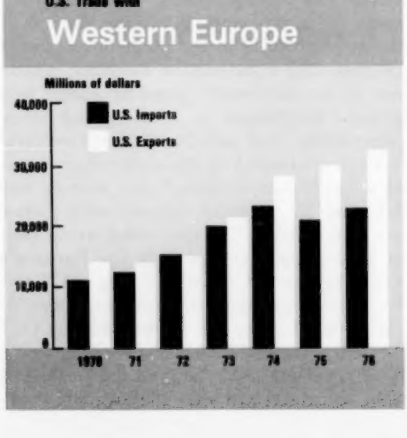
The majority of the European countries continue to experience sizable balance of payments deficits, which usually are traceable to their costly oil imports. In general, these deficits have been manageable, in part because the economies have expanded only moderately—one of the few pluses to limited growth.

Last year there was considerable concern regarding the severe payments imbalances of the United Kingdom and Italy. Now, however, the U.K., with a strong assist from North Sea oil, can anticipate the elimination of its deficit and progress is being made in rectifying the Italian deficit. The Yugoslav balance of payments position has also improved significantly. On the other hand, the Nordic countries and Spain are still faced with substantial deficits. It is encouraging that the European governments have been able, with the help of the international banking community, to finance their deficits and have not resorted to trade restrictions.

The two other major problems facing most European countries, inflation and unemployment, seem to have become chronic maladies. Only Germany and Switzerland, and possibly the Netherlands, have succeeded in bringing inflation under control. Switzerland, with its free enterprise economy, and Sweden, with its mixed economy, are alone in enjoying nearly full employment. Led by Italy and the United Kingdom, Europe's overall inflation rate still exceeds 12 percent. In several cases, including the U.K., consumer prices have continued to soar despite significant reductions in wage increases. The recent vote by the transport workers in the U.K. in favor of a return to collective bargaining imperils the government's chances of continuing to hold the line on wage increases.

Continued high unemployment is perhaps more explicable. Something happened on the way to economic recovery. Although the upswing in economic activity was initially vigorous, it came to a halt last summer and did not revive for several months. Moreover, it continues to lack dynamism. Industrial production continues to lag behind that experienced in previous postwar recovery cycles.

For various reasons, private investment has remained weak. Incentives have been lacking and uncertainty regarding future profitability has eroded investor confidence. This applies particularly to the major depressed industries—steel, textiles and shipbuilding. There are signs of a revival of business investment in Germany, Netherlands and the United Kingdom; but it will be some time before this is translated into higher levels of employment.



European affiliates of U.S. companies will continue to make a significant contribution to capital formation in many European countries. As reported in the March *Survey of Current Business*, capital expenditures by U.S. affiliates in Europe in 1977 are estimated at $11.9 billion, an increase of 7 percent over the 1976 level. Expenditures by affiliates operating in the North Sea oil fields account for over $3 billion of this total.

For some time Germany has been viewed as the key to a general expansion of economic activity in Europe. Germany accounts for almost 25 percent of trade within the nine-member EEC and an increase in German import demand is readily translated into increased prosperity in neighboring countries. Germany is also the largest market of the United States in Europe.

Last year the German Gross Domestic Product increased by 5.4 percent. The latest estimates for this year are in the 4 to 4.5 percent range. Although the inflation rate of 4 percent is low by international standards, German policymakers remain wary of stimulating the economy for fear of rekindling inflation. Nevertheless, the German Government has pledged to strive to achieve its growth targets.

Forecasts indicate that Germany and the Netherlands will have the highest growth rates in the nine-member EEC. The Commission of the European Communities has successively lowered its 1977 growth forecast for the EEC as a whole from 4 percent (November 1976) to 3.5 percent (March 1977) and recently to 3 percent. The comparable figure for 1976 was 4.3 percent.

Of the non-EEC countries, Norway and Yugoslavia are expected to register above average growth in 1977. Oil-rich Norway, unlike nearly all other European countries, practically escaped the 1974–75 recession. Demand, industrial production and imports are growing appreciably. Yugoslavia has eased the growth curbs imposed last year and is in a phase of rapid expansion.

The question of enlargement of the EEC by the inclusion of certain Mediterranean countries is high on the EEC agenda. Negotiations with Greece are being pursued actively and Portugal has formally applied for membership. A bid for membership by the newly formed Spanish Government is expected in due course.

While the variety of U.S. exports to Western Europe has been increasing, and many consumer goods have become marketable, the best prospects lie in goods embodying advanced technology. Exhibit facilities for American exporters are available in the U.S. Trade Centers in London, Paris, Stockholm and Milan. In Germany, the International Marketing Center in Cologne emphasizes assistance to American participants in major German trade fairs.

BELGIUM

Some Signs Offer Basis For Cautious Optimism

The overall economic situation in Belgium has recently shown signs of improvement after faltering in its recovery during the second half of 1976, reports David K. Katz, a Commerce trade specialist.

Public and private consumption, public investment, industrial production and real wages are all expected to rise modestly this year.

Last year, U.S. exports to Belgium increased by 24 percent—higher than the percentage increase to any other major European trading partner. Although the increase might not be quite as pronounced this year, U.S. exports to Belgium should grow by a healthy 20 percent. However, stagnating private investment and unemployment mar the short-term economic climate.

Real GNP growth for 1977 is expected to be about the same as last year's 3 percent increase, which was a significant improvement over the 1.9 percent decline in 1975. Industrial production is up in almost all sectors except steel by at least 10 percent. Inflation has fallen from the staggering 15.7 percent rate in 1974 and 11 percent in 1975 to 7.6 percent last year, and is currently at 7 percent. With the recent implementation of higher value-added taxes on some consumer goods and a continuing budget deficit, however, the inflation rate for 1977 will probably not dip below 7 percent. The growth rate of wages has been brought under control, and should stay around 10 percent (3-4 percent in real terms) this year.

Private industrial investments remain fairly inactive, although industrial indicators are beginning to suggest a slight amelioration. Capacity utilization of only 70 percent in many cases has been discouraging expansion, and has resulted in a growing number of plant closures. Foreign investment is inhibited by a combination of the desire to wait for clearer signs of economic recovery in Europe, rigidities in Belgian labor practices, the relatively high cost of labor, and some labor disputes (including some plant occupations) involving multinational investors. Still, the amount of net foreign capital disinvested remains comparatively small.

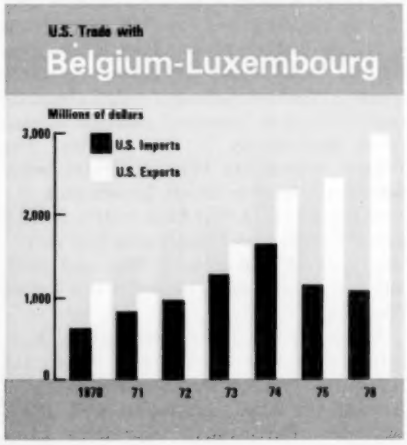
The combination of the government's recent commitment, despite a tight budget situation, to a program of tax and other incentives to encourage new investment, together with the reduction in recent months in unused capacity in some sectors, might bring up to 5 percent in real growth in investment over the next year.

Unemployment remains the greatest single economic problem for Belgium. The current rate of 7 percent, although down from 8.6 percent at the beginning of the year, is still the second highest in the EEC after Ireland. Given the prevailing economic conditions, government/trade union relations are passably good, even though there is a growing worker restiveness.

While well-grounded hopes exist for a revival of the economy, the pace will depend on growth elsewhere in the industrialized world. With an export-GNP ratio of 50 percent last year (44 percent in 1975), the major variable in this export-oriented economy is foreign demand. With exports to the world of $32.8 billion and imports of $35.4 billion last year, the Belgian and Luxembourg Economic Union's (BLEU) $2.6 billion trade deficit (up from $2 billion in 1975) resulted in its first balance of payments deficit ($88 million) since 1968.

Whereas BLEU has for the past six years bought a steady 6 percent of its foreign purchases from the United States, its exports to the United States have fallen during that period from 6.7 percent to 3.6 percent of total foreign sales. U.S. exports of $2.9 billion last year placed us as BLEU's fifth foreign supplier, while imports of $1.1 billion from BLEU placed us as its sixth foreign customer—leaving BLEU's trade deficit with the United States at $1.8 billion.

The outlook for sales of U.S. exports to Belgium is good for the rest of this year and into 1978, partly because of last year's 8 percent dollar depreciation against the Belgian franc and a somewhat lower rate of inflation in the United States. Lucrative opportunities exist for American suppliers of equipment for building and construction, metalworking and finishing, the chemical industry, food processing and packaging, pollution control, commercial and industrial security, business systems, and laboratory and automatic process control instrumentation. Consumer items such as linens, big lawnmowers, quality handtools and leisure wear should also do well. In every field, firms are eager to acquire the newest U.S. technologies either by import or license.



To take advantage of business opportunities, Commerce is sponsoring a hardware and housewares show, Oct. 2-5; and catalog shows on medical/hospital equipment, Oct. 20-27, electronic equipment, Nov. 28-Dec. 3, and building supplies and equipment, Feb. 17-28, 1978.

FRANCE

Little Prospect Now Seen For Near-Term Gains

There is little prospect for a significant improvement in the French economy in the upcoming months; however, this should have only a slight effect on U.S. exports to France, according to M. Grace Haskins, a Commerce trade specialist.

The current French economic stagnation has resulted in a sharp downward revision in the official forecast of the growth in Gross Domestic Product in 1977 from 4.8 to 3.5 percent. The estimate for business investment has also been revised downward from 3.1 percent to 1.4 percent. Household investment is expected to fall by 2 percent, reflecting the decline in housing purchases since 1975, while government investment may increase by 3 percent. Thus, total investment is forecast to grow by only 0.7 percent.

After a drop-off in both April and May, however, in the general public's confidence in the government's economic policy, the June survey indicates a slight revival in business confidence. Several other positive factors have also emerged—a much lower increase in wages during the first quarter and an improvement in the current account deficit, which resulted largely from a decrease in the volume of imports.

Consumption is expected to grow by 3.6 percent in 1977. This estimate is based on the expectation that the French will save a smaller proportion of their income (16.6 percent as compared to 16.8 percent in 1976 and 18.6 percent in 1975.) The government is counting on the large increase in social payments to sustain consumption.

The rate of inflation is forecast to be 8 percent in 1977, compared with 9.5 percent in 1976. Wages are expected to increase by 10.6 percent during the same period in contrast to 15.1 percent in 1976.

Unemployment continues to be one of France's major problems. Prime Minister Raymond Barre has introduced a new economic program designed to reduce unemployment among the young, boost living standards for old-age pensioners, and speed economic growth. The government hopes to create between 200,000 and 300,000 new jobs by exempting employers from making social security payments for employees under 25 years old until July 1978, recruiting 20,000 people temporarily for the public service, initiating studies to see which industries could benefit from

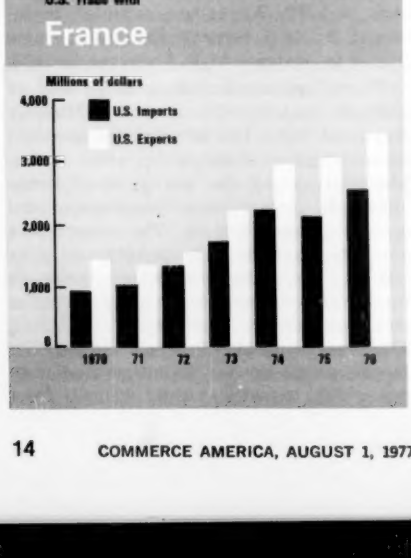
early retirement of personnel, giving unemployed immigrants financial incentives to return to their home countries, and extending professional training.

The bulk of French imports from the United States in 1976 was made up of capital goods and aeronautical equipment. While U.S. imports from France totaled $2.5 billion in 1976, U.S. exports to France reached almost $3.5 billion. For the month of March 1977, U.S. exports to France totaled $485.6 million, or 7.4 percent of France's total imports. This compares with $256.3 million in French exports to the United States, accounting for 4.5 percent of total U.S. imports. In an effort to improve its trade position, the French Government is attempting to double exports to the United States by establishing a program to aid French firms in exporting.

Despite the current economic situation in France, certain U.S. industries can make significant export gains by selling to France. Likely sales areas include: business equipment, particularly labor-saving data processing peripherals, office machinery, data communications equipment, and security devices; laboratory instrumentation for basic and applied research; energy systems, especially systems and devices which promote energy saving in industry and buildings; environmental control equipment—tighter standards are now being enforced and there are more to come; and industrial assembly, maintenance, and conveying equipment.

Despite the investment slowdown, rising labor costs and the growing obsolescence of French factories built in the 50's are giving impetus to U.S. sales of high technology equipment, especially that embodying labor-saving techniques.

To take advantage of these marketing opportunities in France, the Commerce Department is sponsoring exhibitions covering the following areas: food processing and packaging equipment, lasers, electronic industry's production and test equipment, process control instrumentation, and computers and related equipment.



GERMANY

Slower Economic Growth Moderates Trade Expansion

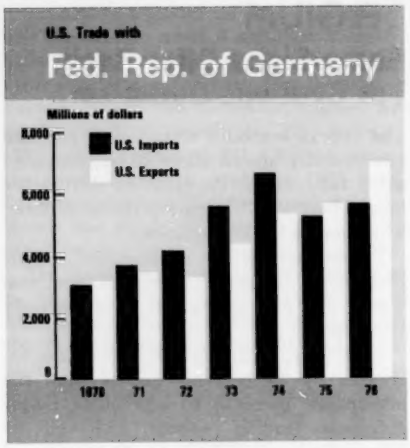
Germany was the only major western industrial country to record a substantial rate of import growth in 1975. Last year, Germany's imports rose 20 percent, its exports about 16 percent. German purchases of semi-finished products and manufactured goods in particular have risen substantially, from industrial as well as developing countries. V. Stanoyevitch of Commerce's Germany desk believes that there is every indication that German imports this year will continue to grow, even if they will not quite match last year's rate.

The slowdown in the pace of German recovery, which became apparent last fall, has carried into this year. It was reinforced by wage and production cost increases matching or surpassing productivity gains and cost-of-living increases which, by the end of March, had decelerated to less than 4 percent on an annual basis. Estimates of real GNP growth rate this year have been revised downward on several occasions and now stand between 4 and 4.5 percent, a rate which offers scant hope for any major reductions in unemployment. The unemployment rate has fluctuated between 3.9 and 5.5 percent of all wage and salary workers ever since the end of 1974. In May it was 4.4 percent, or just under 1 million jobless.

Monetary and fiscal policies motivated primarily by the concern not to exacerbate inflationary pressures have brought about a strong and steadily appreciating mark and low interest rates, but no tax relief or other incentives—except in the building sector—to spur the economy in its drawn-out recovery phase from the 1974/75 recession.

Production gains have come largely from unused capacity and, because of shrinking profit margins, investment in plant and equipment generally has been sluggish. Among notable exceptions is the automobile sector, where expansion of production capacity has resulted in rehiring of furloughed workers and some new jobs. At the same time, to protect markets overseas, German private foreign direct investments have assumed massive dimensions, particularly in this country. The United States has been the chief beneficiary of German direct investments for over two years. About $450 million or 22.5 percent of all such investments last year—concentrated in chemicals, iron and steel, and real estate—were placed in the United States.

Relatively stable export prices have helped German sales, not only within the European Community, but elsewhere in Europe, the Americas, Japan, and OPEC countries. Particularly impressive gains



were recorded with Germany's traditional trading partners in all those areas, except with the United States. Germany's bilateral trade deficit with the United States in 1976 was $1.3 billion. It should be borne in mind, however, that the trade deficits of the last two years were due primarily to an abrupt decline of German exports to the United States, especially automobiles, rather than to any spectacular growth of U.S. exports to Germany. Thus, the U.S. percentage share of the overall German import market remains substantially unchanged; it stood at 7.9 percent last year. At the end of the first quarter of this year, it had declined to 7.5 percent.

Last year, German imports from the United States ran somewhat above the overall German import growth rate. Apart from agricultural products, electric and nonelectric, machinery, chemicals, scientific and optical equipment, and office machines and computers have found a particularly receptive market in Germany, while sales of aircraft and parts declined somewhat. Less dramatic, in terms of market percentage share increases, but nonetheless impressive, were gains in U.S. exports of textile and leather machinery, agricultural machinery and materials handling equipment. The formerly neglected consumer goods exports have continued to do well, in spite of strong competition, especially from France and Italy.

Our new International Marketing Center in Cologne (opened in January) has successfully launched an ambitious program of Commerce-sponsored American group exhibits at a number of major German industrial trade fairs. Participation in three major international trade fairs is scheduled for the remainder of this calendar year: SPOGA, sporting goods and equipment, in Cologne in September; SYSTEMS '77, computers, Munich, October; and PRODUCTRONICA '77, electronic production and test equipment and materials for the electronic industry, November, also in Munich.

ITALY

Business Outlook Improves, U.S. Sales To Increase

The Italian economy is emerging from its crisis, reports Commerce's country specialist John L. Priamou, but inflation, unemployment and a balance of payments deficit still remain as obstacles to stable economic growth.

Although Italian exports are increasing at a faster rate than imports, the latter are expected to maintain their upward trend, albeit at a slower pace, and rise by 4 percent above the 1976 total of $43.5 billion. Imports from the United States reached $3.1 billion in 1976, a 6.8 percent increase from 1975. Demand for U.S. goods will increase only moderately, assuming that the momentum of the surprisingly strong performance of the economy in 1976 slows during the rest of 1977, as anticipated.

Gross Domestic Product in 1976 grew by a healthy 5.6 percent, more than offsetting the 1975 downturn. Contributing to this growth were a 12.4 percent increase in industrial production and a substantial growth of exports and private domestic consumption.

During 1976 and early 1977 the government introduced austerity measures aimed at improving the balance of payments and curbing inflation. In addition, a recent accord between the government and the political parties provides for a new program of policies and objectives aimed at restructuring the economy further.

Though economic activity has been at a relatively high level during the first few months of this year, the austerity measures are expected to reduce GDP growth to 2-3 percent in 1977.

Positive results of this policy of restraint are already in evidence. Productivity has increased and absenteeism, labor wage demands and strikes have been reduced. Exports are increasing faster than imports, and the year-end inflation rate should drop to 15 percent from the 21 percent level of 1976.

Presently, plants are operating, on the average, at 75 percent capacity. Due to the austerity measures, and with the resultant reduced internal demand, the industrial production growth rate in 1977 is anticipated to be about 3 or 4 percent. With this unutilized capacity, overall investment growth will be modest.

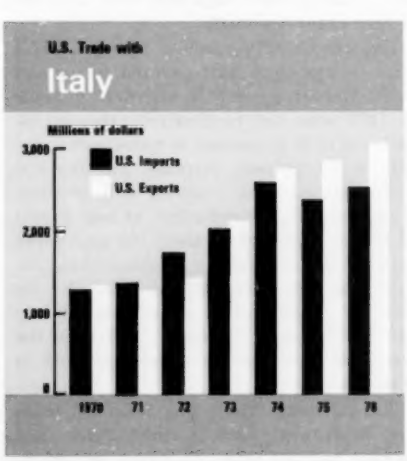
Despite continued business uncertainty and social unrest, industry realizes that it has to stay competitive, particularly in export markets. Investment will more likely be applied to the modernization of equipment rather than to plant expansion, with financing facilitated by the government's program to unburden employers by taking over their contributions to social security and health care funds.

Furthermore, the government's proposed economic program establishes policies to rejuvenate the business sector and identifies industrial sectors which will receive development and investment priority. Specifically, the program includes policies providing for new risk capital and favoring reinvestment of earnings. It also proposes an industrial reconstruction law which contains incentives for priority development of the chemical, textile, steel and construction sectors.

In the spring of 1976, in order to curtail the continued depreciation of the lira, the government imposed a prior deposit payment requirement on most exchange purchases. Later, a tax was also imposed on foreign exchange purchases. Both measures have gradually been phased out and the lira has remained stable. Repatriation of Italian flight capital and the disappearance of the price differential between the official and free lira exchange rates point to renewed confidence in the currency.

Despite the restrictive measures and the austerity program, U.S. exports to Italy should continue to fare well. A growing and widespread awareness of the need for greater operational efficiency is evidenced in many industrial sectors, especially the metalworking industries and those oriented toward exports. As a result, demand is strong for high technology and labor-saving products. In computers and peripheral equipment, Italy is among the growth markets in Europe, with a 15-20 percent annual expansion rate. The United States also supplies one-third of Italian imports of electronic components and production equipment; in 1977 U.S. sales in this area are projected to reach $85 million.

As Italy improves its telephone and message switching facilities, the telecommunications sector offers good potential for U.S. exports. Other promising areas for U.S. equipment include process controls, security, energy generation, metal finishing and machine tools.



NETHERLANDS

Economic Recovery Seen Spur To U.S. Export Growth

The upswing in economic activity in the Netherlands in the latter half of 1976 has led to optimism concerning future trends and to the expectation of a 4.5 percent real growth rate in GNP for 1977. The outlook for continued economic recovery also strengthens the prospects for U.S. export sales to the Netherlands to top the record set in 1976, according to Bobette Orr, a Commerce trade specialist.

Dutch Government policy for 1977 clearly puts the emphasis on the encouragement of investments as the major method to reduce unemployment and foster continued economic growth. Amendments have been made to the Netherlands State Budget for 1977 earmarking more money for support to individual businesses and for new job creation programs in areas with high unemployment. The Netherlands Central Planning Bureau expects corporate investment to grow 8 percent in 1977—after a 6.5 percent decline in 1976—as a result of measures to stimulate investment and because of plans to upgrade health care. Investment in dwellings is even projected to increase by 12.5 percent in volume.

Some success in the programs is already evident in the fact that unemployment has declined from an average rate of 5.7 percent in 1976 to 5 percent of the labor force for the first quarter of 1977.

A number of other key economic indicators are expected to show progress as a result of the Dutch Government's policy for 1977. Price inflation should decline further to an average rate of 6 percent, from 8.5 percent in 1976 and 10 percent in 1975. Actual unemployment may drop slightly from 224,000 in 1976 to between 210,000 and 215,000. Real wages should experience an increase of around 2.5 percent (0.5 percent in 1976). Assuming normal stockpiling, there would be a rise of 5 percent in industrial production and 9 percent in farm production. Consumer spending is likely to increase 3.5 percent.

In the international sector, the current account of the balance of payments will continue to show a sizable surplus, estimated at $2.2 billion in 1977. Dutch authorities anticipate a moderate 7 percent increase in world trade in 1977, and a concurrent 6 percent increase in the volume of Holland's imports and exports. The effective appreciation of the Dutch guilder since late 1976 has reduced the contribution of exports to any further increase in GNP. A further appreciation of the guilder during the rest of 1977 might prove an additional obstacle to exports and a stimulus to additional imports.

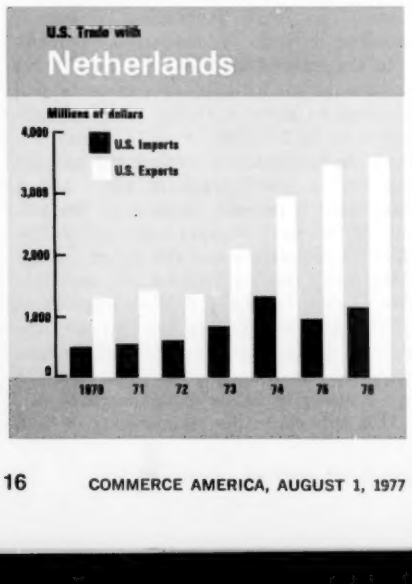
U.S. exports to the Netherlands in 1976

amounted to $3,612 million, representing a 9 percent share of total Dutch imports. The United States is the third largest supplier to the Dutch market, after West Germany and Belgium, and the economic recovery in Holland promises to stimulate further growth.

The 3.5 percent forecasted rise in personal consumption should open new opportunities for the sale of U.S. consumer products. The 8 percent increase in the volume of business investment bodes well for sales by U.S. manufacturers of capital goods and equipment. Because of high labor costs, the Dutch Government expects business investments to concentrate on labor-saving equipment and systems, which should favor many U.S. industrial exports, particularly those embodying high technology.

Computers, banking equipment, electronic production and test equipment, and advanced production machinery for the food processing industry are some of the many product areas whose sales should benefit from Dutch efforts to promote efficiency.

To assist U.S. manufacturers to reap the advantages of the excellent opportunities offered by the Dutch market, the Commerce Department is sponsoring several promotional events in Holland. A U.S. Housewares Universal Showcase will be held Sept. 19-21, followed by a catalog exhibition of laboratory instruments to be held at the HET INSTRUMENT trade fair Sept. 21-29, both in Amsterdam. A security equipment catalog exhibition will be held at the SECURITY '77 trade show in Utrecht, Oct. 10-14; and one on building materials and equipment is planned for the Building Center in Rotterdam in March 1978. U.S. equipment sales of petroleum technology manufacturers should be spurred through participation in the the U.S. pavilion at PETROTECH in Amsterdam, May 23-26, 1978, to meet the demands of the rapidly growing Dutch petroleum processing industry.



SPAIN

Recovery Outlook Improves, Buying From U.S. Seen Firm

Under the centrist government of Prime Minister Suarez, U.S. exporters will continue to find strong sales opportunities despite a recent devaluation and a persistent economic recession. Demand for capital goods for basic industries as well as labor-saving equipment should enable the United States to maintain its position as the leading supplier to the Spanish market, according to Kenneth Nichols, a Commerce trade specialist.

Spain's GNP is expected to grow by 3-3.5 percent in 1977 as compared to only 2 percent in 1976. Spain has continued its successful transition to democratic rule with its first free parliamentary elections in 41 years. Spanish voters in June gave a majority to the moderate parties which subsequently formed a coalition government under Prime Minister Suarez. Among the government's first priorities will be dealing with the problems of inflation, unemployment and a serious trade imbalance.

During the first quarter of 1977, inflation accelerated to a projected annual rate of 30 percent as compared to 20 percent in 1976. Much of the jump is a result of a combination of wage hikes, monetary expansion, an increase in domestic fuel prices and some rise in the price of imports. On July 11, the government devalued the peseta by nearly 25 percent—from 69.99 to 87.30 pesetas to the dollar. The devaluation is expected to be followed by a broad economic program to deal with the current recession.

The new government will also have to come to grips with the growing problem of unemployment which is now officially estimated at 5.3 percent or 700,000 workers. The labor sector is undergoing its own transition with the dismantling of the national syndicates (government-controlled labor/management organizations) in favor of free trade unionism.

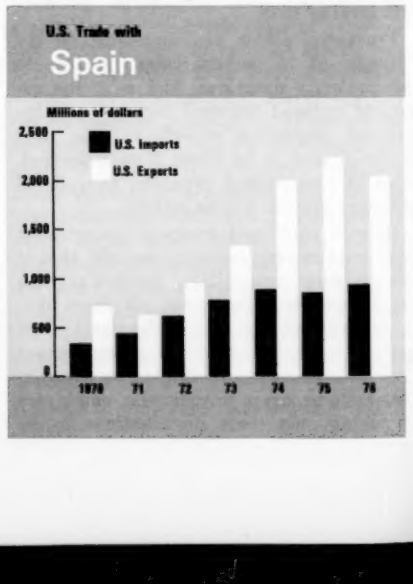
Imports in 1976 reached a record $17.5 billion—less than half covered by export sales. Import growth in the first quarter of 1977 was not particularly strong, increasing only 6 percent in value compared with a 20 percent increase for exports. Nevertheless, there probably will be little, if any, significant reduction of last year's $8 billion trade deficit. Over the past three years, Spain's trading position has declined sharply, largely accounted for by growing dependence on petroleum imports (an estimated $4 billion in 1976) and the recession in the major export markets in Western Europe.

Traditionally, Spain has relied on tourism, emigrant worker remittances and foreign capital inflow to offset its perennial trade imbalance. Tourist receipts from an estimated 28 million visitors in 1976 totaled almost $3.2 billion although this represented a decline from the previous year. Emigrant remittances have likewise seen little increase.

Foreign capital inflow has also been low, largely due to the general economic recession and a "wait-and-see" attitude concerning political developments. Investors have long been attracted to Spain, encouraged by the government's liberal treatment of foreign capital. In an effort to revive investor sentiment, the government liberalized application procedures for new investment under the 1974 Foreign Investment Code. The United States continues to be the leading foreign investor with total U.S. direct investment reaching an estimated $2 billion at the end of 1976.

To help finance its payments deficits, Spain has had to turn to foreign capital markets. A number of major loans were negotiated in 1976 including a $1 billion loan from a multi-national banking consortium. The government also drew down on its foreign exchange reserves by almost $750 million. Reserves in March 1977 were estimated at $4.2 billion. The government will likely continue to cover its large current account deficits by allowing reserves to fall further and by energetically seeking foreign credits in the United States, Western Europe and elsewhere. Overall, Spain's foreign debt is some $12-13 billion.

Excellent opportunities for U.S. goods and services exist in the following areas: electrical power equipment, construction, mining and materials handling equipment, health care equipment, process control instrumentation, communications equipment and systems, drilling equipment, production equipment for the electronics industry, food processing and packaging equipment, security and safety equipment, and computers and peripheral equipment. A computer systems technical trade mission sponsored by the Commerce Department is scheduled to visit Spain in January 1978.



SWEDEN

Imports Seen Expanding Despite Payments Deficit

The Swedish economy is expected by Commerce trade specialist Albert Caya, Jr., to continue to grow moderately and maintain nearly full employment. Inflation will remain a serious problem. Despite a large balance of payments deficit, further import expansion is anticipated.

Heavily dependent on exports, which normally account for some 30 percent of Sweden's Gross Domestic Product, Swedish industry has experienced a slow but persistent erosion of its sales performance abroad over the last several years. Many firms suffer from low capacity utilization, oversupply of labor, weak order books and excessive inventory holdings.

According to government calculations, Swedish exports lost 17 percent of their share of the OECD market during the 1975-76 period. Much of this loss may be ascribed to the slack state of industrial investment and construction in the OECD area, since a large portion of Sweden's exports are capital goods and building materials.

Pricing, too, has played a significant role in the relative decline of exports to the industrial countries. In the period 1975-76, prices of Sweden's industrial exports increased by 16 to 20 percent more than world export prices. In the same period, total labor costs in Sweden rose by over 40 percent and, according to the Swedish Employers Federation, absolute labor costs in Sweden are now 20 percent above U.S. labor costs and 30 percent above those in the Federal Republic of Germany.

This climbing price trend appeared to have been interrupted in the last half of 1976 when export prices were only 6 percent above those posted one year earlier. Wage increases negotiated this spring are calculated to add 10-11 percent to industry's wage bill, however, and are likely to force new price increases, thus negating the improved export pricing picture of late 1976.

Sweden's 1976 gross national product was equivalent to $74 billion. This represents about a 1.5 percent increase over 1975 in real terms and is approximately 0.5 percent higher than initially anticipated for the year. This somewhat stronger GNP showing is due to the strength of domestic private consumption. Sales of automobiles were exceptionally strong and increased by 9.5 percent, while expenditures for recreation and clothing increased by 7.5 and 6.5 percent, respectively. In all, consumer consumption increased by 4 percent for the year.

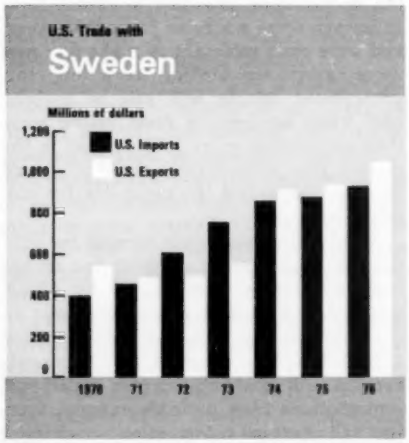
Public consumption at the national level increased by 2.5 percent (excluding military expenditures) while local government consumption expenditures increased by some 4 percent.

Gross investment in 1976 fell by 1.5 percent. A large portion of this disinvestment grew out of a significant reduction in the Swedish merchant fleet through sales of used tonnage abroad. Disregarding these sales, total investment fell by 0.5 percent. Investments in housing and manufacturing machinery and equipment were particularly weak, while outlays in the areas of services and merchandising were relatively strong.

For the current year, the Swedish Government forecasts an increase in real gross investment of 3.6 percent over last year. This figure rests on the assumption that industry is stimulated by a stronger recovery in overseas sales and order book growth. A rise in GNP of about 1.5 percent is indicated.

Dampened expectations for exports and continued strong domestic consumer demand for imports underlie official forecasts of a trade deficit of about $700 million. However, Swedish exports were valued at $4.6 billion while imports totaled $5 billion in the first quarter of this year alone. Thus, the year-end trade deficit may be larger than the government's estimate.

U.S. exports to Sweden developed exceptionally well in 1976 and continued a good showing through the first five months of this year. In the January-May period, U.S. sales totaled $428 million, registering an 8.4 percent increase over the same period one year earlier. Through the remainder of this year U.S. exports to Sweden should continue to prosper. Consumer durables and non-durables will find ready markets in Sweden. Demand for capital goods and OEM components is expected to sag somewhat, while data processing equipment, engineering and process control instruments and labor-saving capital equipment and systems should do well.



SWITZERLAND

Slow Recovery Affects Imports Of Capital Goods

Because of continued weakness of foreign demand, Swiss exports and imports in 1977 are not expected to grow as rapidly as in 1976, reports Commerce trade specialist Leo Kuus.

The 0.5 percent of GNP in 1976 and 2.1 percent expected growth in 1977 reflect the persistent economic stagnation in Switzerland. Insufficient foreign demand for Swiss products, overvaluation of the Swiss currency, and postponement of structural adjustments are some of the factors responsible for the present underutilization of industrial capacity and low profit margins.

Reflecting the economic difficulties, a new relationship has developed between business and government. The business community has apparently decided that it can no longer wait inactively for a surge of foreign demand for Swiss products to revive the domestic economy. Also, the business community understands that the tools of the government to relieve the situation are necessarily limited. Consequently, industry is concentrating on research and development of new products and is looking for new markets. At the same time it supports the government's policy to control inflation and to check the upward pressure on the Swiss franc.

Switzerland is the only developed country which has brought inflation to a virtual standstill. In April the consumer price index had increased barely over 1 percent on an annual basis. The Swiss franc, which before the floating of currencies in 1971 equaled 4.3 to the dollar, has since mid-1976, with the help of the Swiss National Bank, settled down to a rate of about 2.50 per dollar.

The resulting improvement of the U.S. competitive position in the Swiss market has not been reflected in a higher U.S. market share, because Switzerland was hit by a severe recession at the time trade flows would have responded to relative price changes due to changes in currency rates.

In the first four months of 1977, the U.S. market share in Switzerland had decreased to 6.8 percent from 7.1 percent in the same period a year ago. This decrease was due to the fact that U.S. exports to Switzerland consist of about 40 percent capital goods, which have been affected to a larger extent by the recession than other Swiss imports.

On July 1, the dismantling of customs duties on industrial goods between Switzerland and the EEC countries was completed, in accordance with the Preferential Trade Agreement concluded between Swit-

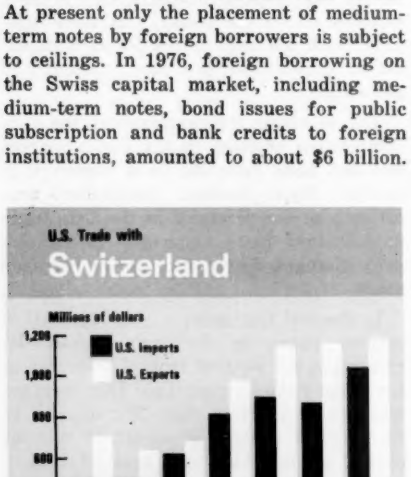
zerland and the EEC in 1972. Because of the low Swiss tariffs on which the reductions were based, the removal of customs barriers is expected to have no appreciable effect on the U.S. competitive position in the Swiss market.

Although imports are primarily needed for inventory buildup and renewal of existing equipment, some industries are still in a position to invest in new plant and equipment. Products with good sales potential include pollution control equipment, computers and business machines, process control instruments, electronics components, microprocessors, biomedical equipment, industrial and commercial security equipment, many consumer goods, and a wide variety of sophisticated electronic instruments.

The Department of Commerce is sponsoring a catalog exhibition of computers and electronic components at INELTEC in September at Basel. Also, several consumer goods promotions are being developed.

Growth of U.S. direct investment in Switzerland and Swiss investment in the United States also has been affected by the current recession. The depreciation of the dollar in relation to the Swiss franc and the slowdown of economic activity in Switzerland does not augur well for new U.S. investments. In 1976, Swiss direct investment abroad was estimated to have increased by $1.3 billion and foreign direct investment in Switzerland by $300 million.

As in 1976, the Swiss capital market is expected to remain very liquid, which in turn will exert a downward pressure on interest rates. Because of the high liquidity, the Swiss National Bank last year removed the ceiling on Swiss loan issues. At present only the placement of medium-term notes by foreign borrowers is subject to ceilings. In 1976, foreign borrowing on the Swiss capital market, including medium-term notes, bond issues for public subscription and bank credits to foreign institutions, amounted to about $6 billion.



UNITED KINGDOM

Prospects Remain Bright For U.S. Capital Equipment

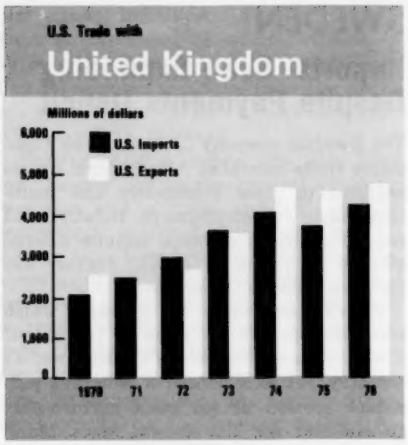
Prospects for U.S. exports of machinery and equipment offering improved cost performance for British manufacturers continue bright for the remainder of 1977, reports Commerce trade specialist Paul A. Norloff, as British Government strategy continues to focus on expanded industrial investment and export-led growth.

The market for consumer goods will probably be considerably less bouyant, as both public and private expenditures will be at reduced levels in comparison with last year. The pound sterling, buttressed by the IMF loan in late 1976 and the prospect of a 1977 balance of payments surplus, will probably remain stable through the remainder of the year.

Government policy will continue to concentrate on fostering increased investments aimed at the expansion of exports. The major government goal of reducing the level of inflation in order to maintain the competitiveness of British exports will face its strongest test as the voluntary wage restraint agreement with the Trades Union Congress completes its second year of operation at the end of July. All signs indicate an unwillingness on the part of the unions to continue this restraint policy for a third year, especially since wage increases during the past year grew less than the rate of inflation, producing an actual reduction in the standard of living. Government-labor cooperation will probably focus now on establishing annual wage agreements providing for adjustments in wage anomalies which have appeared over the past two years and providing for wage increases which do not result in a reduction of living standards. The aim of returning as rapidly as possible to free collective bargaining after several years of wage restraint will dominate labor efforts over the coming months.

Since it became clear in mid-July that the unions were unwilling to extend their voluntary wage restraint for a third year, and were even reluctant to make any new wage agreements binding for a full year, government efforts will aim at keeping new wage agreements from rising more than an average overall 10 percent in the coming year, since a more rapid rise could severely jeopardize the prospects for economic recovery.

A balance of payments surplus for 1977 is practically assured as North Sea oil has come on stream, following a 1.4 billion pound deficit in 1976 which itself was an improvement over the 1.6 billion pound 1975 deficit. The expected 1977 payments surplus will probably receive significant contributions from invisible exports, tourism and overseas construction activities.



Unemployment, at 5.6 percent during 1976, may actually increase to about 6.0 percent during the remainder of 1977 as a result of restrained public expenditures.

Real growth in GNP is unlikely to be much higher than the 1.2 percent recorded in 1976, as reduced economic activity during the first half of 1977 is balanced by growth during the second half. Real consumer expenditure has dropped during the first half of the year as price increases exceeded wage rises. A likely increase in the average level of wage increases during the second half should reverse this trend but still leave the level of consumer expenditures somewhat below 1976. Private sector investment is expected to rise steadily, as it has since early 1976, aiming at increased cost-competitiveness which in turn is the essential component of the program to expand exports.

U.K. imports from the world during 1976 totaled $53.4 billion, a major value increase over 1975 total imports. Imports from the United States increased in the same period to $4.8 billion. U.K. exports in 1976 reached $44.2 billion, also a major rise over 1975. Exports to the United States were recorded at $4.2 billion, a hefty increase over the 1975 level and 9.6 percent of total U.K. exports.

As has been the case for many years, the United States in 1976 ranked as Britain's most important supplier and market.

On Jan. 1 of this year, U.K. tariffs on industrial goods imported from other than European Community members were aligned to within 20 percent of the difference between original U.K. tariffs and the Community's Common External Tariff. The final adjustment was made on July 1, leaving applicable U.K. tariffs equal to the EEC's Common External Tariff.

The United States Trade Center in London is staging an exhibition of quality control and materials test equipment in September, followed by an electronic components exhibition in November and a printing and graphic arts exhibition in December.

AUSTRIA

Anticipated Recovery Pace To Sustain Import Level

U.S. exports to Austria last year rose nearly 10 percent, raising the U.S. percentage share of that country's overall import market to 3 percent. According to V. Stanoyevitch of Commerce's Austrian desk, it was the steady pace of Austria's economic recovery, following the 1975 recession, which made this possible.

The country's real GNP growth rate last year matched Germany's and the estimated growth rate this year of about 4.5 percent parallels closely that of Germany —Austria's principal trading partner. Last year's growth was accompanied by relatively low unemployment, averaging less than 2 percent of all wage and salary earners. In February, the number of jobless stood at 80,000 (2.9 percent).

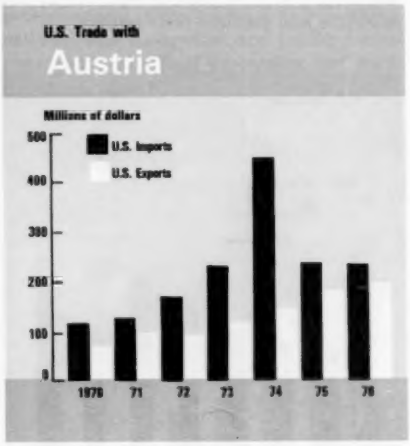
This number of jobless was less than half the number of foreign workers in the Austrian labor force. A 7.3 percent increase in consumer prices last year is expected to decelerate to just over 6 percent this year.

According to the Austrian Institute of Economic Research, Austria's imports this year should grow at a rate of about 12 percent and exports, 14 percent. That would hardly reduce the magnitude of last year's trade deficit of some $3 billion. Speculation about possible devaluation of the schilling, in view of Austria's ample monetary reserves and standing, does not appear warranted and the government is not likely to depart from its traditionally liberal trade policies. If U.S. exports to Austria merely matched this anticipated overall import growth rate, they could well reach the quarter-billion dollar mark going into 1978.

The composition of the U.S. export mix to Austria did not change. Apart from agricultural exports, consisting primarily of raw tobacco, oil cake and processed fruits, ranked in the order of importance, were nonelectric machinery, motor vehicles, including aircraft and pleasure craft, business machines, chemicals, electric machinery and equipment, and metal ores and scrap. The U.S. Embassy in Vienna believes that, in addition, product lines which should enjoy a particularly receptive market in Austria are electronic test and measuring instruments and components, mini-computers and small business computers, health care and biomedical equipment, and laboratory instruments for industrial application and research. The market for sporting goods and apparel also looks promising.

The U.S. Embassy has effectively promoted this country's sales in Austria, despite the lack of funding for the physical display of American products at a trade center, or at Austrian industrial trade fairs. These efforts, in turn, were aided by the fundamental improvement in the U.S. competitive position as a result of the nearly 10 percent appreciation of the Austrian schilling against the dollar, from year-end 1975 to year-end 1976.

In September, Commerce is arranging a video catalog exhibition in Vienna, featuring product literature, samples and video tape recordings on behalf of a group of U.S. manufacturers in the field of housewares.



DENMARK

Economy Still In Recession, Making Market Hesitant

Denmark continued to languish in the doldrums of recession throughout the first half of this year and the prospects for a brighter economic picture in the second half are uncertain. Performance later in the year will hinge largely on developments in Denmark's export trade. American exporters to Denmark will find the market hesitant and sales of industrial goods will at best be stable. Trade in traditional U.S. agricultural exports, e.g., oilseeds, fodders and feeds, is expected to continue fair to good, adds Commerce trade specialist Philip G. Combs.

High unemployment and a marked deterioration in the balance of payments on current account characterized the Danish economy in 1976. Recognizing that domestic inflation has eroded the competitiveness of Danish exports while making foreign products more attractive on the domestic market, the government has sought to dampen wage demands and stem import growth.

In a recently issued report, the Economic Advisory Council in Denmark anticipates that prices and income will now increase at 10–11 percent per year, however.

Consumer prices rose 13.1 percent in 1976. This compares with average annual increases of 11.3 percent in 1974-76 and 6.4 percent over the decade 1963-73, before the four-fold increase in the price of oil. Hourly earnings in manufacturing rose 12.4 percent in 1976. Increases averaged 18.1 percent in the years 1973-76 and 11.1 percent in 1962-72.

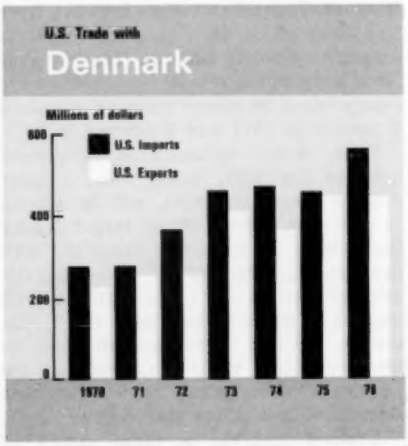
Gross Domestic Product in Denmark stood at $38 billion in 1976, when the economy expanded by 4.5 percent. While the preliminary Danish official estimate for growth in 1977 is 2.5 percent, the OECD puts forward a more conservative prediction of 1.5 percent.

Balance of payments deficits are once again restraining economic growth, forcing restrictive action in the face of excessive unemployment (5.5 percent in May) and weakening private demand. The $1.9 billion current account deficit in 1976 is expected to drop to $1.4 billion in 1977. With net foreign debt at $6.3 billion (end-1976), net interest and transfer payments abroad could amount to $600 million.

Financing the deficit is not expected to be a serious problem. However, there are indications that the private non-financial sector's share of foreign borrowing may expand while that of the public sector may decline.

Total imports into Denmark in 1976 amounted to $12.4 billion, up from $10.4 billion in 1975. Danish exports to the world rose from $8.7 billion in 1975 to $9.1 billion the following year. U.S. exports to Denmark in 1976 amounted to $444 million, almost identical to $445 million in 1975. U.S. imports from Denmark, however, expanded to $561 million in 1976 ($461 million in 1975).

The market in Denmark for U.S. farm products, chemicals, fertilizers, plastics, wood building materials, and a variety of industrial equipment and instruments is well established. American exports suffered less than most others in the recession in 1974 and, conversely, gained less from the investment recovery in 1976. At best the market will expand a little in 1977, and some concerted efforts may be required to preserve present levels of exports.



FINLAND

Government's Export Policy Should Enhance U.S. Sales

The new Government of Finland has recently announced an economic policy aimed at stimulating the sluggish domestic economy and reducing record high unemployment. With little prospect in the near term for meaningful expansion of foreign demand to stimulate exports, the government aims, through increased borrowing abroad, to finance the expansion of profitable export industries.

The program should provide U.S. firms better sales prospects in Finland, especially for capital equipment offering labor-saving advantages, reports Philip G. Combs, a Commerce Department international trade specialist.

Real Gross Domestic Product grew 0.5 percent to $28.8 billion in 1976, after no growth in 1975. Forecasts have consistently underestimated the duration of the recession. Finnish exports, in particular to its principal OECD markets, the United Kingdom and Sweden, have revived only slightly. Tight monetary policy has reinforced the dampening of investment and construction.

Investment activity has largely concentrated on the completion of expansion projects under way and replacement of old machinery. Lower investment in the metal and forest industries has been quite noticeable. Investment volume in new building fell markedly, and the decline in the rate of construction for dwellings, which had started in 1975, continued in 1976. This year real growth in GDP is expected to reach 2 percent. Revival of investment to rationalize and increase productivity is of prime importance if Finland's competitive position is to be improved.

Finland's fundamental economic problem is inflation. With price rises of 17, 18 and 12.5 percent over the past three years, Finnish rates have far exceeded OECD country averages. Efforts by the Bank of Finland to reduce inflation have had some effect, at a significant cost to domestic economic activity. The two-year labor agreements recently concluded have incorporated increases running at about 7 percent in 1977 and 9 percent in 1978.

Thus, earlier estimates of 12 percent inflation for 1977, based upon a more spartan wage settlement, will be difficult to attain, as will the official target to keep the Finnish inflation rate below the OECD average. Moreover, the 5.7 percent devaluation of April 4 will add an estimated 1.6 percent to the consumer price index. The budget for 1977 is substantially less inflationary than earlier budgets, but one supplemental budgetary request has been introduced and others may follow.

Finland incurred a trade deficit of $1,049 million in 1976, roughly half the $2,107 million deficit for 1975. Despite a surplus on invisibles in the neighborhood of $390 million, there was a current account deficit of $1,139 million ($2,167 million in 1975) because of the growing burden of net payments on foreign debt.

The United States remains Finland's fifth largest trading partner, with a 5.2 percent share of the market in 1976. Good long-term sales opportunities exist in industrial process control equipment, numerically-controlled machinery for metalworking, pollution control equipment, and scientific and medical instruments.

NORWAY

Offshore Oil Helps Produce Impressive Growth Record

Norway's economy has grown at an increasing rate, with 3.5 percent growth in 1975 expanding to 5.7 percent in 1976, and up to 8 percent growth projected for 1977. While U.S. exports to Norway in January-May rose 13.6 percent over the same period last year, exports for the rest of the year may level off because of slackening in some industries, especially the drop-off in petroleum field development, according to Philip G. Combs, Commerce's trade specialist for Norway.

The ability of Norway to maintain this impressive growth record with inflation about average for OECD countries, low unemployment (1 percent in April), and increases in real disposable income of over 1 percent in 1975, over 3 percent last year and a promised 2.5 percent this year, has derived from two factors: offshore oil and the government's steering of the economy.

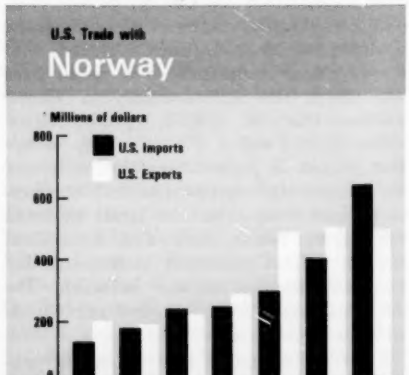
Norway's economic growth has been assured owning to its ability to borrow against future oil income. Balance of payments deficits of $2.5 billion in 1975, $3.7 billion in 1976 and $3.6 billion projected for 1977 reflect this borrowing abroad. The Ministry of Finance expects to have a surplus on current account of $1.1 billion by 1981. Declining net earnings from shipping have also contributed to recent deficits.

By the end of 1976 Norway's foreign debt had reached $10.1 billion, about one-third of GNP ($30.8 billion in 1976), and it is expected to total more than $13 billion by the end of this year. Although debt repayment will stretch well into the 1980s, future oil income should guarantee that Norway will retain its present high credit standing.

The government's successful incomes policy pursued over the past three years allows the level of real income increase to be set. Tax relief and subsidies are then used to underpin the main agreement between employers and unions, the government's own agreement with farmers, and payments made to pensioners. Central to the policy is that high employment is to be maintained, currency adjustments are not to be used as an instrument of policy and negotiations are to focus on real disposable income rather than on nominal wage and salary increases.

Norwegian industry is currently facing the double impact of offshore oil development and weakened demand in its traditional export markets. In the near future it will have to go through a restructuring, about which there is still considerable debate and uncertainty. Rising unit production costs, low earnings and the financing of substantial unsold stocks of finished goods are issues of present concern. Recent calculations indicate that since the beginning of 1976 the government has provided about $700 million in support for industry and to maintain employment.

High costs in Norwegian industry can result in opportunities for American business. Shifts will be from labor intensive to more capital intensive industries—e.g., to electronics and petrochemicals. Rapid growth in imports of U.S. process control instruments, EDP and communications equipment, and machine tools has taken place. Consumer goods of exceptional quality or novelty are likely to do well.



PORTUGAL

Concerns Include Inflation, Balance Of Payments Deficit

U.S. exports to Portugal will probably show little growth in 1977 due to the continued recession, reports Kenneth Nichols, a Commerce trade specialist. Figures for 1976 indicate that U.S. sales declined by some 6 percent.

The overall economy is characterized by low growth and investment, high unemployment and inflation and massive trade deficits. Portugal's Gross Domestic Product reached an estimated $15.6 billion last year, which represented a modest recovery. Nevertheless, any gains have been far outstripped by sharp wage and price increases.

Inflation reached 30 percent last year; figures for the first quarter of 1977 indicate a worsening of the situation with inflation now running at a dangerous annual rate of 40 percent. Moreover, the recovery among the different industrial sectors has been mixed: food, furniture, construction and some chemical production appear to be increasing while the output of the motor vehicle, metal-fabricating, machinery and electrical goods sectors is falling.

Already-existing problems of underemployment and unemployment were severely aggravated by the influx of some 600,000 refugees from Angola and Mozambique. Unemployment is now estimated at 15 percent.

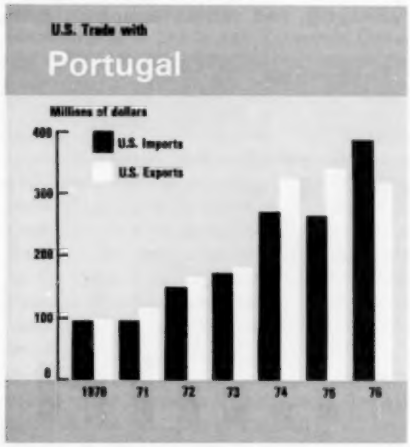
With the successful conclusion of Portugal's transition to democratic rule through municipal elections in late 1976, the government of Prime Minister Soares has turned its efforts to dealing with the current recession. In February, the government adopted a number of austerity measures, including increased sales taxes, stronger price controls and a 15 percent devaluation of the escudo. In addition, the government has started a case-by-case review of firms subject to worker occupations following the 1974 revolution to determine if the companies should be returned to their original owners. Large segments of Portuguese industry were also nationalized following the revolution.

Portugal was hard hit by the sharp rise in oil prices and the subsequent economic recession among her major West European trading partners. Despite the escudo's devaluation and extensive import restrictions, import demand has remained high. The perennial trade deficit doubled between 1974 and 1976 to reach nearly $2 billion. During the same period, the balance of payments deficit rose to $1 billion.

Traditionally offsetting emigrant worker remittances, tourism and foreign capital inflow have fallen sharply since the revolution. Although recently there has been a marked recovery in tourism and emigrant remittances, foreign investment is currently negligible.

Portugal has received extensive bilateral and multilateral financial assistance. Led by the United States, 15 countries have agreed to lend Portugal $750 million to help cover its balance-of-payments deficit.

Because of the government's strong emphasis on social welfare programs, excellent sales opportunities exist for health care instrumentation and equipment and building and construction equipment. Other markets which appear promising are those in energy systems; mining, petrochemical, metalworking and finishing, railway, and navigation and traffic control equipment; and food processing and packaging machinery.



YUGOSLAVIA

Imports Continue To Rise Despite Trade Barriers

After spectacular growth of exports and declining imports in 1976, Yugoslav foreign trade results are expected to be less favorable in 1977, according to Leo Kuus, a Commerce trade specialist. There has been a surge in imports this year.

According to the Five-Year Plan for 1976-80, the national product is scheduled to increase in 1977 by 5.5 percent—considerably more than in 1976 when the increase was less than 4 percent. The growth is to be achieved through an increase of capital investments by 7.5 percent and of imports by 8 percent over 1976, while inflation should not exceed the 1976 rate of 12 percent.

Economic performance in the first quarter this year has brought attainment of some of the targets set for 1977 into question. Maintenance of internal and external equilibrium seems again to have become a problem as the cost of living increased in the first quarter by 6.5 percent and imports by 32 percent over the same period last year.

Yugoslavs hope that they can find the right course between economic growth and stabilization. They are thus widening the list of commodities whose prices are subject to self-management agreements between organized producers and consumers, and correspondingly lessening direct price controls by the Federal Government.

Deterioration of Yugoslavia's foreign trade balance in 1977 has destroyed all hope that Yugoslavia may abolish its counter-trade requirements in the near future. These requirements, imposed in mid-1975, directed Yugoslav importers to offset their imports through exports (for equipment, to the extent of 30 percent) to the foreign supplier.

The United States is sharing in the overall increase in Yugoslav imports this year. In the first quarter, the U.S. share of the Yugoslav market increased to 5.5 percent from 5.3 percent a year ago, reflecting the need for equipment to carry out postponed capital expenditures.

Proclamation of the new Constitution in 1974 has led to revision of several laws affecting the economy. The Customs Tariff Law and the Regulations on Representation Offices for Foreign Firms, which became effective in 1977, deserve attention. New levies have raised the effective rate for finished goods up to 40 percent of the declared value. In contrast to the situation under previous regulations, under certain conditions foreign firms are now permitted to open representative offices in Yugoslavia.

Best sales opportunities can be found in product categories which are considered essential for the development of priority sectors, especially utilization of the country's hydropower potential and soft coal reserves, mineral resources, and agriculture.

The Commerce Department will sponsor three seminar trade missions in the next few months: chemical industry processing equipment and technology, November 1977; off-shore oil, December 1977; and frozen foods systems, January 1978.

GREECE

Economy Is Doing Well; U.S. Exports Hold Steady

U.S. exports to Greece were holding steady through five months of 1977, at $248 million, and should match or slightly improve on last year's $591 million figure, according to Ann Corro, Commerce desk officer for Greece.

Greece's economic picture is bright. A favorable 5.6 percent GNP growth rate in 1976, to $22 billion, may rise in 1977 to a 7 percent rate. Reflecting recovery in domestic and export demand, industrial production should surpass the 9.6 percent level of 1976. Sectors leading the way include foodstuffs, tobacco, textiles, clothing and footwear, furniture, consumer durables, cement and electrical machinery. One area of concern, however, is lagging domestic and foreign investment activity.

In agriculture, government policies are directed towards increasing crops with import substitution or export potential. The services sector, which comprises about half of GNP, will also contribute to the healthy growth rate in 1977 through increased spending in defense, public administration, and stepped-up activity in banking, other commercial services, and tourist arrivals.

Although inflation was held to 11.7 percent in 1976, or close to the OECD average, inflationary pressures persist. A flexible price and incomes policy being pursued by the government aims at containing inflation to 10 percent in 1977.

In addition, preliminary indications of Greece's medium-term goals, reflected in the Five-Year Economic Plan for 1976-80, are for an average annual real growth of 6 to 7 percent, emphasis on rapid export development and import substitution, and a 10 percent annual increase in gross fixed asset formation.

Because of its location at the crossroads of Europe, the Middle East and Africa, and the exodus of American firms from strife-torn Beirut, Greece's significance as a regional center for U.S. firms grew dramatically in 1976. Some 170 U.S. firms have established regional offices in Athens. Among other factors, tax and duty exemptions for businesses engaged in commercial activities outside of Greece have attracted these firms.

Rapidly expanding commercial and economic ties with the Middle East and North Africa may also offer increased trade opportunities for U.S. firms, especially in joint ventures in high technology areas such as petrochemicals and desalinization. Presently, Greek exports to this region are double the growth rate of total overall exports.

Negotiations on Greece's accelerated entry into the European Community, which began officially in July 1976, are now well under way. Greek policymakers hope to complete negotiations by mid-1978, with full membership ratified by the end of 1979. This will be followed by a transition period of five years to enable full adjustment to European Community responsibilities and competition.

There is no lack of new major trade opportunities. U.S. firms will, however, have to offer price competitive, technologically superior products and obtain favorable financing to reverse a recent declining trend in the U.S. market share. U.S. firms will find particular interest for their products in computers and electronics, power and energy (solar), mining, telecommunications, avionics and aircraft, pollution control, food processing and packaging, and marine equipment fields.

TURKEY

Shortage Of Exchange Seen Slowing U.S. Sales

Turkish shortages of foreign exchange should begin to stem a recent surge of U.S. sales during the last half of 1977, reports Commerce trade specialist Ann Corro, with the result that total U.S. exports to Turkey this year will register only a modest increase over 1976.

A trade deficit of $1.4 billion was registered through the first four months of 1977, with Turkish exports of $643 million, down 30 percent from 1976, and imports of $2 billion. Several reasons have been cited for Turkey's lopsided trade picture: disappointing exports of agricultural products; over-ambitious public and private investment programs requiring a large volume of imports; and uncertainty over the economic policies of a new government, leading some importers to stock supplies and exporters to defer shipments.

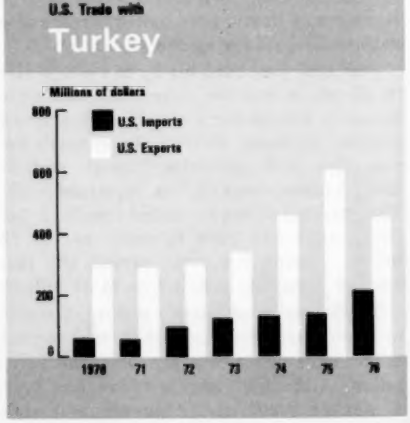
Turkey's GNP growth rates are impressive, averaging 7 percent in real terms for the last six years, 7.2 percent in 1976. This was a noteworthy achievement in view of OPEC oil price increases and lagging economic recovery in Western Europe, Turkey's best customer. Preliminary indications are that the Fourth Five-Year Development Plan, covering 1978-82, will call for an annual growth target of 8 percent. By 1995, when Turkey is scheduled to become a full member of the European Community, an annual growth rate of 9.6 percent is forecast.

The sustained expansion of the last six years in the face of adverse circumstances was not without cost. Turkey's imports have boomed to feed this growth, while exports have not matched the pace of imports. At the same time, remittances from Turkish workers have declined with recessionary conditions persisting in traditional host countries and tourist receipts, as yet, have been slow to have a beneficial effect on the balance of payments picture.

Some 200 investment projects have been designated as "available for external financing" under the upcoming plan. The various projects are valued at about $10 billion and include a railway construction program, energy projects, fertilizer and cement plant construction and numerous industrial machinery and equipment plants. It is quite evident that heavy reliance on imports and technical expertise will be required. This should result in enormous opportunities for American exporters of capital goods and construction equipment.

At the moment, medium and long-term foreign debt is not a serious problem, since 85 percent of an estimated $5 billion debt is owed to foreign governments and international organizations. The debt service ratio as a percentage of worker remittances plus exports could reach 14 percent in 1977, from 12 percent in 1976, but is still considered manageable.

Two Commerce trade missions will be visiting Turkey in 1978; computer systems for business, industry and government (January) and textile machinery (March).



CONTINUING EXPANSION OF U.S. TRADE WITH EASTERN EUROPE, CHINA SEEN

New Initiatives Help Counteract Obstacles

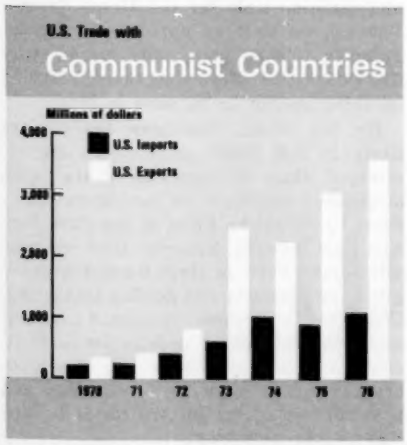
Although a slight downturn in trade with the communist countries was registered during the first half of 1977, expanding industry contacts and several initiatives in the trade programs and regulations of the centrally planned economies hold out good prospects for the continued expansion of U.S. trade with the area, according to Susanne S. Lotarski, a Commerce regional economist.

U.S. exports to the area, which includes Bulgaria, Czechoslovakia, the GDR, Hungary, Poland, Romania, the USSR, and the People's Republic of China, were down by a fifth through May. Only trade with Romania showed a strong gain as the results of MFN status began to be reflected. Although some of the declines should be recouped later in the year, total exports for 1977 are likely to show a slight decline. The U.S. trade balance with the area, however, can be expected to continue to be highly favorable.

Contributing to the decline will be somewhat reduced agricultural exports, if the anticipated crop yields are realized. Even so, exports of grains, soybeans and other agricultural products will continue to be important export earners in U.S. trade with the communist countries.

The tight hard-currency situation of all of these countries, in addition, will dampen demand for U.S. industrial goods. Although considerable interest exists in U.S. equipment and technology, sizable trade deficits with the United States and other Western trading partners are causing these countries to limit imports of non-essential items and place greater emphasis on counterpurchases.

Despite the liquidity crunch and, in the case of all the countries except Poland and Romania, lack of normalized commercial relations with the United States, the communist countries show a willingness to continue to explore ways of expanding commercial ties. Initiatives in the U.S. market and in foreign trade regulations could offer new possibilities to American firms. Hungary's revision of its joint venture law and launching of a major trade promotion effort in the United States; Czechoslovakia's introduction of hard-currency import credits and regulations for industrial cooperation; Poland's reinstatement of the WOG (large economic organizations) principles and passage of foreign investment regulations; and the GDR's launching of a Trade and Economic Council with U.S. industry set the stage for long-term expansion of trading relations.



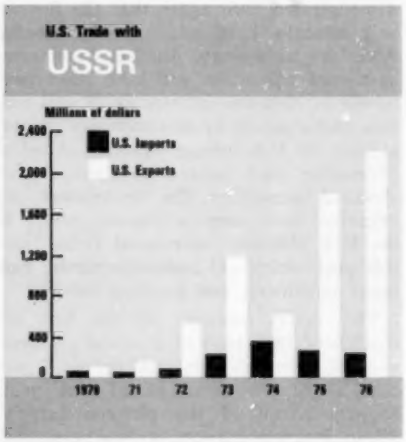
Contacts between U.S. and communist country firms continue to deepen. In addition to the newly launched U.S.-GDR Trade and Economic Council, the Bulgarian-U.S., Polish-U.S., and Romanian-U.S. Economic Councils met this spring to consider measures for the promotion of bilateral trade as did the U.S.-USSR Trade and Economic Council. Trade delegations in both directions resulted in new and important contacts.

All of the communist countries are looking to good harvests to help meet growth plans and reduce import expenditures. Last year's unfavorable weather conditions adversely affected economic performance in Czechoslovakia, the GDR, Hungary and Poland. The prognosis for this year's crops, however, is good.

Economic results for the first half of 1977 are generally satisfactory. Industrial production has shown particularly strong gains in Poland and Bulgaria, while some sluggishness is evident in Czechoslovakia and the USSR. All the countries show mixed results in industrial plan performance with some crucial sectors lagging.

Setbacks in industrial production as well as export opportunities can be expected in China and Romania as a result of the earthquakes suffered last summer and this spring.

American exporters are most likely to find good sales opportunities in several sectors receiving high priority in communist country plans. Prospects for agricultural and food-processing equipment are good throughout the area. Chemical and petrochemical, electronic, and machine building equipment likewise is in demand. Other industries offering potential sales include metallurgy, materials handling, construction, and building materials. Commerce-sponsored trade promotion events are scheduled in several of these product areas.



USSR

Current Outlook Mixed; Future Offers New Potential

U.S.-USSR trade turnover in 1977 is currently running at an annual rate of $2.5 billion, equaling last year's record. Nevertheless, a decline is expected with two-way merchandise trade likely to be in the $1.8–$2.3 billion range, according to Val Zabijaka, a Commerce specialist in Soviet trade.

Despite this decline, the United States can anticipate a 1977 surplus well above $1 billion in its trade with the USSR. U.S. exports to the Soviet Union this year should range from $1.6–$1.9 billion. U.S. imports, on the other hand, should amount to at least $300 million. A large portion of U.S. exports to the USSR—roughly 70 percent—will again consist of agricultural commodities, mainly grain. This is the major reason for the current uncertainty about the 1977 U.S.-Soviet trade level: it is too early to estimate the effect of the expected U.S. bumper crop on agricultural prices and to predict Soviet soybean and grain purchases over and above the 6 million metric tons of wheat and corn they are required to buy annually under the Grains Agreement. In addition, the current outlook for an excellent Soviet harvest imparts a downward trend to the value of U.S. agricultural exports. Also, nonagricultural purchases from the United States, according to Soviet officials, are expected to decline, partly as a result of hard currency shortages.

On the brighter side, a number of significant Soviet equipment contracts were announced during the first half of 1977, totaling over $100 million. These include sales of oil and gas equipment, baby formula and baby food plants, vegetable cultivation and harvesting equipment, and $22.5 million worth of log rollers.

Sponsored by the Commerce Department, 20 U.S. firms participated in ELECTRO-77, a major Soviet trade show devoted to electrical engineering. Floor sales and orders

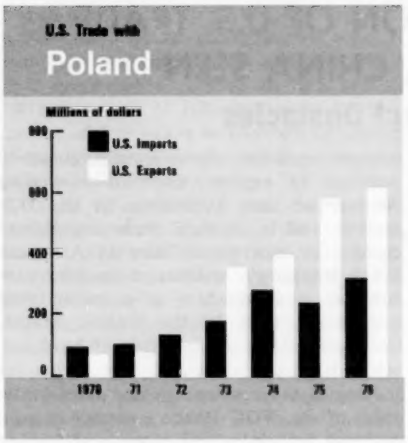
demonstrated once again that the Soviets will allocate hard currency for needed American technology. Another Commerce-sponsored exhibition will take place next month in Moscow. CHEMISTRY-77 will feature participation by 30 companies (representing 70 U.S. firms) showing chemical processing and control equipment and chemical technology. The Department will organize three seminars/mini-exhibits in the U.S. Moscow Commercial Office later this year which will feature concrete, garment machinery, and building safety.

The Soviet economy in the first six months of 1977 showed a mixed performance, with overall industrial output 6 percent above the same period last year, slightly ahead of the planned targets. While instrumentation, agricultural machinery, natural gas, chemical and petroleum machinery, automotive production, and the medical equipment industry were credited with good performance, other industries failed to fulfill their plans. Among industries working significantly below their potential were coal, chemical, pulp and paper, food, petrochemical, timber and wood, ferrous and non-ferrous metallurgy, and heavy machine building. The Soviet press did not mention the oil industry, implying that all may not be well in this important industrial sector.

The present Soviet Five-Year Plan (1976-80) emphasizes quality and efficiency to offset the effects of slower growth in capital and labor inputs. Soviet planners, therefore, are looking to automated systems and the latest Western equipment and technology to raise productivity and output. To relieve a hard currency shortage, the USSR has stressed compensation agreements, under which Western firms sell complete plants to the Soviet Union on credit and receive payment in product after the plants become operational.

An important development was the resumption of meetings of the Joint U.S.-USSR Commercial Commission. After a two-year hiatus because of the chill in U.S.-Soviet relations following Angola, the Commission held its sixth session in Washington on June 9-10, headed by U.S. Treasury Secretary Michael Blumenthal and Soviet Foreign Trade Minister N. S. Patolichev. The meeting confirmed the new Administration's interest in expanding U.S.-Soviet trade and produced a frank but friendly exchange of views, as well as useful discussions of ways to improve conditions for U.S. companies pursuing commercial interests in the Soviet market. It was agreed to hold two joint seminars within the next year, including one on marketing in both countries.

Thus, while major trade policy problems —lack of nondiscriminatory tariff treatment and U.S. Eximbank credits—have not been resolved, both sides are continuing their efforts to further develop their commercial relationship.



POLAND

Nation's Economy Expands But Import Growth Slows

U.S. exports to Poland in 1977 are running slightly behind the record 1976 level, reports Susanne S. Lotarski of the Commerce Department's Polish desk.

January to May exports were valued at $185 million as compared to $255 million for the same period of 1976. A sharp drop in machinery exports accounts for most of the decrease. This trend is likely to continue throughout the year. Exports of other products remain about the same, although year-end totals of agricultural exports are unlikely to match the $490 million value of 1976. Total U.S. exports to Poland in 1977 thus are likely to remain or even drop slightly below the 1976 level of $621 million.

U.S. imports from Poland, which in 1976 increased by 30 percent to a total of $319 million, are equaling last yeär's pace. Manufactured items continue as the primary growth area. Imports through May totaled $130 million.

The pattern developing in U.S.-Polish trade reflects the foreign trade goals of the Polish economy. After a five-year period in which imports grew three times as fast as exports, Poland is seeking to bring its foreign trade account into rough equilibrium. Under the 1977 plan, Polish exports are slated to grow at twice the growth rate of industrial production or by 13-14 percent, while imports are to grow by only 2.7 percent. Over the 1976–80 period, Poland's plans call for exports to grow at three times the pace of imports, thus reversing the trend of the preceding five-year period.

Preliminary results for the first four months of 1977 indicate, however, that these targets may prove difficult to achieve. Imports of grain and fodder, and also meat and lard, are continuing at a high level, while production of goods for export is lagging. Poland's imports from other CMEA countries in 1977 are growing twice as fast as exports to that area, 24 and 12 percent, respectively, above last year.

In trade with the industrialized West, both imports and exports are lagging behind the plan, with exports more seriously so (7 percent) than imports (3 percent). Deterioration in the terms of trade also is becoming evident. Prices of some of the key raw materials imported by Poland have risen precipitously, while those for export commodities have declined slightly. Similarly in 1976, Poland's exports to the West increased by about 13 percent in volume terms, but unfavorable price trends reduced the increase to 8.3 percent in value.

On the domestic front, however, the Polish economy continues to expand strongly, if unevenly. For the first five months of 1977, industrial production grew at an annual rate of 9 percent, well above the planned 7.3 percent rate and near the 11 percent rate of 1976. Deliveries of consumer goods grew by 15 percent, exceeding both the plan and the 13 percent growth in monetary incomes.

Priority is being given to investments in agriculture, food-processing, housing, consumer goods, transport, and energy. Supplies of agricultural machinery are being augmented by speeded-up domestic production and increased imports of both machinery and manufacturing equipment. Fodder processing facilities are of particular importance. With transport facilities under heavy strain from an increasing volume of goods, mechanized handling equipment is being sought to relieve some difficulties.

Earlier this year, the economic-financial system for large economic organizations (WOGs) was reinstated in modified form for enterprises in the machine, chemical, light, heavy and agricultural machine industry ministries. With increased authority over investment, import, production, and wage decisions, the WOGs should enjoy greater flexibility in trading and entering into cooperation arrangements with foreign firms.

Major recent sales by U.S. firms to Poland, including papermaking machinery and machine tools for the Ursus Tractor Factory, as well as opportunities under Poland's 1976-80 plan, were reviewed by the Polish-U.S. Economic Council during its third session in Warsaw in May.

On the whole, American traders are likely to find Polish importers more restrained than in previous years, with heightened emphasis on counterpurchase. Sales by American firms at the June Poznan Fair indicate, however, that opportunities exist even in tight market areas—given top products and flexible marketing. Commrece Department sponsored technical sales seminars featuring pollution controls, offshore oil and gas equipment, stored energy systems, frozen food technology and physical test equipment are slated to visit Poland later this year.

BULGARIA

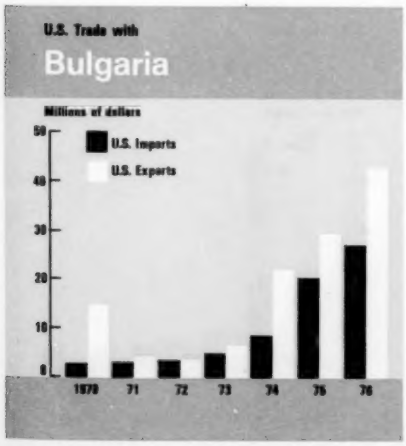
Growth Rate Favorable, Trade With U.S. Expanding

Although falling short of its target, Bulgaria's reported growth rate of 7 percent in 1976 was respectable and compared favorably with that of the other Eastern European countries. Similar growth is expected for 1977 and, as such, should hold continued export opportunities for U.S. firms, according to Michael J. Hegedus of the Commerce Department.

Bulgaria has turned to the West more and more for goods and technology currently unavailable from the other nonmarket economies. Indicative of this trend is the recent substantial growth of U.S.-Bulgarian trade. U.S.-Bulgarian trade in 1976 ($70.3 million) was more than six times the 1973 value and was up over 40 percent from 1975. Although agricultural commodities—for example, U.S. corn and Bulgarian tobacco—dominate trade, sales of machinery, technology, and other manufactured products have increased as a share of U.S. exports.

A policy of modernization will continue to guide the Bulgarian economy through the Seventh Five-Year Plan (1976-80). Major growth areas remain in machine building (still by far the most significant sector of Bulgarian industry), chemical production, metallurgy, and construction. In agriculture, a policy of mechanization and integration will require the Bulgarians to shop for large purchases of equipment for both crop production and food processing. In electronics, the Bulgarians, though producers of their own computer systems, will continue to rely on the West for parts and for larger, more sophisticated computers. In chemicals, the goal is to develop and expand production of chemicals and their by-products—an area in which there is particular U.S. expertise.

The Bulgarian machine building and metallurgical industries have expressed interest in U.S. technology, equipment, and production licenses for use in their own plants. They also are interested in importing construction equipment and whole systems for the production of building materials. The Five-Year Plan calls for construction of two major complexes—a plant for construction of heavy machinery and the Third Metallurgical Complex near Varna.



Bulgaria is continuing its efforts to reduce hard currency expenditures and deficits. As a consequence, U.S. firms wishing to enter the market may be called upon to accept heavier countertrade agreements.

U.S. firms were able to discuss trade opportunities and other issues of mutual interest with Bulgarian officials during the second plenary meeting of the Bulgarian-U.S. Economic Council held this past March in Washington, D.C. Following the meeting, the Bulgarian delegation met with senior U.S. government officials and then visited several U.S. industries.

Planned U.S. government-sponsored trade promotion events in Bulgaria for the remainder of 1977 will focus on those areas where U.S. firms have a definite competitive advantage. These include technical sales seminars in petrochemical production equipment and offshore oil drilling equipment. In addition, the United States will stage a full-scale exhibition of general and agricultural equipment at the September Plovdiv International Trade Fair.

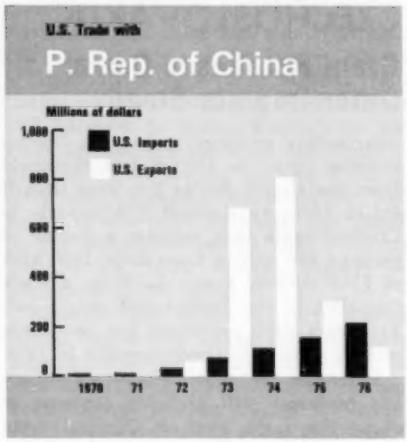
CHINA

Sizable Foreign Trade Gain Not Seen For Another Year

The effects of internal disruptions in the People's Republic of China throughout 1976 seem to be abating, but a substantial increase in PRC foreign trade volume will probably not be seen for another year, according to Commerce trade specialist Martha Avery. Succession struggles, earthquakes, adverse weather conditions, and low foreign exchange holdings combined to keep trade levels low over the past year. Although the new regime under Chairman Hua Kuo-feng is giving international trade a definite role in China's economic development, the expected increase in U.S. exports will probably be gradual and limited.

Sino-American trade figures for the first-half of 1977 show a decrease in U.S. exports over the first half of 1976, although latest monthly figures are showing an upturn. U.S. political considerations—absence of diplomatic recognition, lack of a trade agreement embodying Most-Favored-Nation status, and no settlement yet of the claims and assets issues—remain paramount in deciding the warmth of the Sino-American trading relationship.

Additionally, financial limitations restrict China's import program, while Chinese



acceptance of direct credit remains taboo. In lieu of conventional financing, China has resorted to strict import limitation and a concerted export drive over the past year, to swing from an estimated $450 million hard currency deficit in 1975 to a surplus of some $700 million in 1976. This surplus is persisting through 1977. However, recent indications augur well for a more solid U.S.-China trade relationship. The spring 1977 Canton Fair was marked by strong attendance and a positive business attitude on the part of the Chinese. About 600 U.S. businessmen were present; U.S. transactions totaled some $60 million.

Top American exports for 1977 include oil exploration, drilling and production equipment, special purpose trucks, organic chemicals, and synthetic fibers. The lull in complete plant imports by China, caused in part by political unrest and attacks by "radicals," may be ending as China concentrates on imports of capital equipment to reduce technological bottlenecks.

Prime U.S. import items from China in 1977 are feathers, down, cotton fabrics, basketwork and antiques, hog bristles and tin. Oil imports remain a "wild card" in U.S.-China trade; although PRC crude oil exports rose to 11 million tons in 1976, none is expected to reach the United States for some time.

With the receding of drought danger in China and prospects for a better harvest this year now more firm, agricultural imports for 1977 are unlikely to exceed the high amounts already purchased from other countries. After buying virtually no agricultural products from the United States in 1975 and 1976, China has contracted for a small amount of cotton this year, but no U.S. grains.

The lack of substantial agricultural sales probably will result in a continued U.S. deficit position vis-a-vis China through 1977 and into 1978. While the United States experienced large balance-of-trade surpluses in 1973 and 1974 due to grain exports to China, the U.S. balance declined to $145 million in 1975, and dropped to a $67 million deficit in 1976.

CZECHOSLOVAKIA

Grain Purchases Down, Other Imports Steady

Anticipating an excellent harvest, Czechoslovakia plans to import less feedgrain from the United States this year than it did in 1976. As a result U.S. exports to Czechoslovakia may register a decline of perhaps $50 million from their 1976 high of $149 million, James L. Ellis, a trade specialist in the Department points out. Feedgrain sales accounted for two-thirds of U.S. exports to Czechoslovakia in 1976.

Purchases of sophisticated machinery and processes will probably continue at about the same level as Czechoslovakia strives to maintain the 6-percent-per-year growth rate called for in the 1976-80 Five-Year Plan.

Economic results for the first quarter of 1977 showed the economy meeting some of its goals and falling short of others. Industrial production as a whole rose 5.3 percent—apparently short of the rate needed to reach the Five-Year Plan goal of a 33 percent increase. Although output of chemicals, a priority sector, was reported to have registered quick growth, engineering production, another priority, was below plan. Shortage of labor and dislocations caused by a wholesale price reform were cited as principal reasons for the general slowdown.

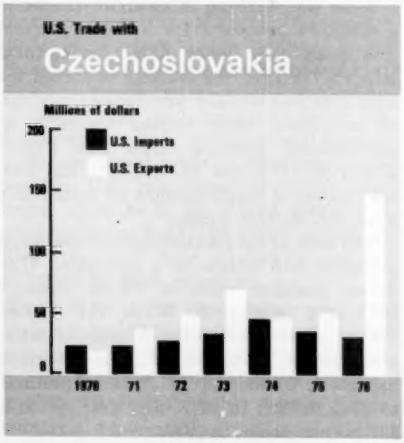
Czechoslovakia's balance of trade also showed continuing difficulties. Although the balance with other CMEA countries as a group improved, imports from the industrial West again increased much more rapidly than Czechoslovak exports to the area (25 percent vs. 4 percent). The apparently worsening deficit with hard currency trading partners suggests that Czechoslovakia may have to borrow increasingly in the West.

Aware of the delicate economic situation, Czechoslovak planners have introduced new incentives to raise exports and to cut production costs. Starting this year, the State Bank is making available about $300 million in hard-currency import credits for purchases of Western technology and equipment. With these purchases Czechoslovak firms are expected to produce more goods the West will buy and cut production costs. If the approach works, the State Bank will grant increased import credits each year up to 1980.

As indicated, two prime areas where Western suppliers can expect to make sales in Czechoslovakia are machine tools and chemical technology and equipment, both of which are priority development sectors. Increasing amounts of Czechoslovak Government attention will also be given to developing energy sources, since the country has no natural energy sources except some coal and uranium.

Czechoslovak enterprises prefer to have most major trading arrangements on a long-term basis. For this reason, U.S. firms wishing to do business should consider concluding long-term "cooperation" agreements.

U.S. Department of Commerce-sponsored trade promotion events offer U.S. business possibilities for contact with Czechoslovak industry. Scheduled for the next 12 months are participation in two major trade fairs (medical instrumentation, and petrochemical equipment and processes), and two seminars (physical test equipment and process controls).



GERMAN DEM. REP.

Productivity Emphasized; Trade With U.S. Grows

Trade between the U.S. and the German Democratic Republic (GDR) nearly tripled during 1976 when compared with the previous year, from $28.4 million in 1975 to $78.4 million in 1976. The growth seems to have resulted largely from an increase in export document specification to the GDR as country of final destination for U.S.-origin agricultural commodities which had previously been transshipped through third countries (primarily through Western Europe), Commerce GDR desk officer Suzanne F. Porter explains. Such transshipments appear in U.S. statistics as exports to the intermediate country while being listed as imports from the U.S. in GDR accounting. Large quantities of U.S.-origin agricultural products continue to be transshipped to the GDR.

In 1976, according to the U.S. Department of Agriculture, U.S.-origin agricultural exports to the GDR, including transshipments through third countries, totaled some $365 million, an increase of 6.1 percent over 1975's $344 million. When added to other U.S. exports to the GDR, these agricultural transshipments increase the value of U.S. exports to the GDR to more than $371 million in 1976 and to over $350 million in 1975, and raise the two-way trade totals to $385 million for 1976 and $361 million for 1975.

The GDR's poor harvests in 1975 and the 1976 drought resulted in increased agricultural imports during the period. Even with a return to more normal harvests, however, the GDR is expected to maintain imports of U.S. agricultural commodities at relatively high levels in the coming months. The GDR has informed the U.S. of its intention to import some 1.5 to 2 million tons of grain annually for at least the next several years.

Although U.S.-GDR trade in manufactured goods continues to be modest, U.S. export opportunities exist in the machine tool, electronics, chemical, petrochemical, and precision instrument industries.

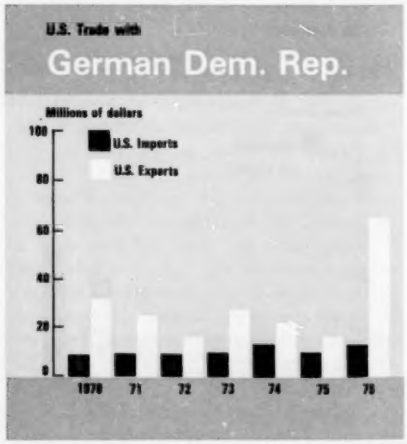
The GDR plans investment in the chemical and petrochemical industry and in electronics. Development of the coal (lignite) and energy industry and exploration and exploitation of indigenous energy sources will be stepped up. Other industries receiving investment attention are mechanical engineering and metallurgy.

Because of GDR emphasis on increasing productivity, export sales possibilities for U.S. firms may exist not only in materials handling, but also in other labor-saving technologies and equipment. The GDR has expressed interest in obtaining some U.S. technology under license.

Increasingly, U.S. firms are being asked to engage in countertrade with the GDR. The GDR's chronic scarcity of hard currency and its attention to export expansion are inter-related factors contributing to the growing emphasis on countertrade.

The first plenary session of the privately sponsored Joint U.S.-GDR Trade and Economic Council met in Washington, D.C., June 15-16. Purpose of the Council is to expand bilateral trade opportunities and to promote long-term economic, scientific and technological cooperation.

The Commerce Department is sponsoring a Business Development Office at the 1977 Leipzig Fall Fair, Sept. 4-11, featuring the U.S. petrochemical industry.



HUNGARY

Improved Economy Seen, U.S. Sales Prospects Good

As Hungary moves into the second year of its Five-Year Development Plan, U.S. firms should find ample opportunities for increased sales. In line with the goals of the plan, machine tools, chemicals and pharmaceuticals, agricultural equipment, food processing machinery and textile equipment appear to offer good prospects, Commerce's Hungarian desk officer Mona Levine reports.

This year should see an improved overall economic picture in Hungary, particularly if agricultural production increases by the planned 5.3 percent. Due to a poor agricultural yield in 1976, Hungary was unable to meet its development goals. Western equipment will be needed to reach targets for industrial expansion and long-term cooperative arrangements will be sought.

U.S. export statistics for the first five months of 1977 are disappointing, but the total trade situation should improve by year's end. U.S. exports can be expected to surpass the 1976 total of $63 million. U.S. imports from Hungary are running slightly above last year's, with growth centered in the manufactured goods area.

The absence of Most-Favored-Nation (MFN) tariff status will continue to pose an obstacle to greatly expanded trade growth. Looking toward the future, however, the Hungarian Chamber of Commerce plans to sponsor a major trade promotion effort in the United States this fall. In a series of seminars in Washington, Chicago, San Francisco and New York, Hungary will try to increase U.S. companies' familiarity with the Hungarian market. Officials of major Hungarian enterprises and planning bodies will acquaint U.S. firms with opportunities for trade and cooperation. The seminars will focus on the intricacies of the Hungarian economic and banking systems and prospects for sales, purchasing, licensing and investment. After the November seminars, Hungary plans to send technical specialists to the United States to attend scientific and technical society meetings and conventions.

As an important step in the financial area, Hungary plans to open in New York a representation office of the Hungarian National Bank. The President of the National Bank, Matyas Timar, will attend the September opening.

Recent changes in Hungary's joint venture law should make investment by U.S. firms in Hungary more attractive. Under changes introduced in May, foreign firms may now participate in joint ventures for production. The amended legislation also opens the way for greater than 49 percent participation by foreign companies in banking and services. Changes were also made to simplify taxation requirements for joint ventures.

Following successful participation at Hungary's agricultural fair in April, the Commerce Department will sponsor a repeat exhibition of agricultural and food processing equipment at AGROMASEXPO '78. Prior to that, technical sales seminars are planned in environmental protection equipment for September, stored energy systems in December, and frozen food technology in January. A business development office/catalog show of industrial equipment also will be held in October.

ROMANIA

Two-Way Trade Growth With U.S. Continues

Following a record high of $448 million in two-way trade for 1976, the growth of U.S.-Romanian trade has continued to accelerate during the first 5 months of 1977, to a total of $218.7 million as compared to $151.5 million for the same 1976 period. Of the 1977 figure, $111.7 million or 51 percent is U.S. exports, reports Commerce trade specialist Jay Burgess.

Of the $448 million in 1976, $249 million represented U.S. exports. As in previous years, these were dominated by agricultural products such as wheat, $48.4 million; soybeans, $45.3 million; cattle hides, $26.5 million; grain sorghums, $18.1 million; and soybean oil-cake and meal, $17.7 million. Other U.S. exports included raw materials such as bituminous coal and phosphate rock, and some manufactured goods and machinery and equipment.

Imports from Romania continue to be dominated by fuel oil ($79.3 million) although growth was shown in a number of other sectors, particularly light industry.

An important recent event was the Fourth Session of the Romanian-U.S. Economic Council in New York July 11-12, which included over 70 senior U.S. business executives and representatives and 21 Romanian foreign trade and industrial leaders.

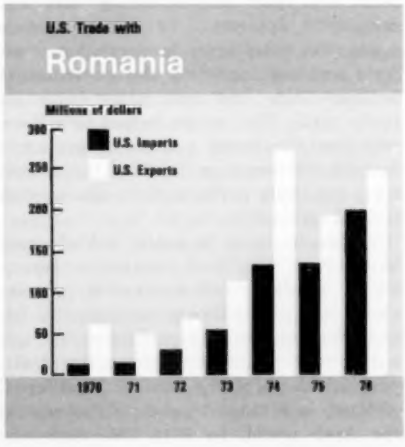
Topics discussed included business facilitation, contract fulfillment, market access and barriers to trade. Possibilities for trade and cooperation were also explored, particularly within the machine building, electronics, chemical, petrochemical, and agricultural sectors. Emphasis was placed by the Romanians on the need for joint venture and third country cooperation projects with U.S. firms.

Romania was struck in March by a strong earthquake which inflicted heavy damage on Bucharest and other cities as well as factories and industrial centers. Total damage resulting from the earthquake was estimated at about $1 billion.

Although the economic impact of the earthquake is still being assessed, it appears that the affected industrial and agricultural sectors have recovered quickly. What is uncertain, however, is the extent to which money planned for investment in the economy must now be diverted to reconstruction and rehabilitation. In April, the U.S. Congress authorized and President Carter approved a disaster relief program of $20 million to help Romania.

During this year several useful publications have been issued. The Romanian Foreign Trade Publicity Agency PUBLICOM has published a booklet entitled, "Doing Business with Romania: Opportunities for U.S. Businessmen." Also, the Commerce Department has released a study entitled, "Joint Venture Agreements in Romania: Background for Implementation." For information on either, write or call the Romania Desk, Room 4325, U.S. Department of Commerce, Washington, D.C. 20230; telephone, 202-377-2645.

Trade promotion events for the remainder of 1977 include technical sales seminars planned by the Commerce Department in the areas of offshore oil and chemicals. Commerce also will have representatives at TECHNOEXPO, an equipment and processes exhibition in Bucharest Oct. 15-24.



NEAR EAST-NORTH AFRICAN TRADE PIVOTAL TO U.S. BALANCE OF PAYMENTS

Development Activity Is Picking Up Again

U.S. trade—both exports and imports—with the Near East/North African countries plays a critical and growing role in the U.S. balance of payments. U.S. exports to the 19 nations, which rose 10.5 percent in 1976 to $11.2 billion, are projected by Kathleen Keim, a Commerce Department trade officer, to approach $13 billion this year. However, U.S. imports (chiefly petroleum and natural gas) are increasing even faster, giving the United States a balance of trade deficit with the area for the second straight year. In the first five months of 1977, the U.S. exports to the region ($5.2 billion) accounted for 10.2 percent of U.S. exports to the world compared with 9.5 percent in January-May 1976. During the same period, U.S. imports ($8.0 billion) were 13.4 percent of total U.S. imports compared with 10.4 percent in January-May 1976.

Statistics reflecting U.S. investments and exports of services are not available by country for the region. However, U.S. joint venture projects and consultant, architect, engineering and construction companies remain extremely active in the Near East/North African area, partially offsetting our trade deficit.

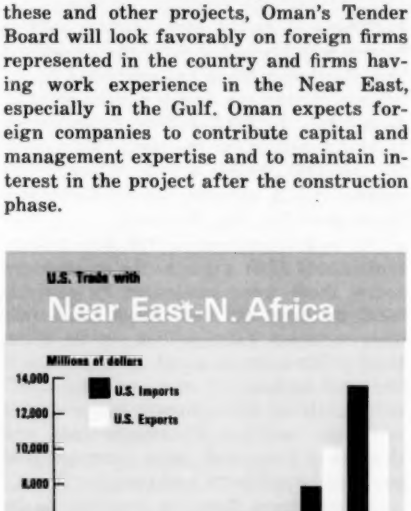
Most of the countries in the area (notable exceptions are Iraq and Algeria), even the oil exporters, encourage foreign private investment. Several, including Israel, Jordan and Egypt, offer low cost loans, tax holidays and other incentives and assistance to attract foreign capital. Israel maintains an investment office with branches in various U.S. cities and the U.S.-Egypt Business Council, a private organization, has compiled some 35 reports on projects offering joint venture possibilities for U.S. business.

Economic growth in the oil exporting countries, which slowed during 1976 and early 1977, appears to be picking up once again. The brief lapse in development efforts was engineered by the governments to consolidate and rationalize gains already made. This action helped to relieve, somewhat, economic and social pressures such as inflation, over-burdened infrastructure, especially ports, and the shortage of trained manpower.

Within the next 15 years, Bahrain may be the first Near East country to deplete its oil supplies. With the end to oil revenues in sight, Bahrain continues to expand its role as a regional service and commercial center. The international airport, which regularly services 27 different airlines, is a transit point to the rest of the Arab world. In 1976 Pan American inaugurated a weekly non-stop New York-Bahrain flight, and in 1977 TWA began a weekly New York-Geneva-Bahrain route. Access to office space, housing, communications and transportation, coupled with a central location, has attracted some 60 American firms.

Furthermore, Bahrain's successful "Offshore Banking Units" program, which led to establishment of more than 35 international banking operations, is encouraging the government to launch an Offshore Companies Law, probably this fall. Bahrain's regional role is likely to be strengthened by construction of a causeway between Bahrain and the Eastern Province of Saudi Arabia. The 20-mile, $800 million causeway, to be financed by Saudi Arabia, is expected to be tendered shortly.

Oil production in Oman will continue to decline from its peak in 1976, unless oil exploration in the southern province of Dhofar is successful. Therefore, implementation of plans for industrial and infrastructure expansion will depend upon foreign aid and investment funds, principally from Saudi Arabia, Kuwait and the United Arab Emirates. Oman's development plan highlights the shift from infrastructure projects to development of rural areas and revenue generating projects in manufacturing, mining, agriculture and fisheries. In awarding contracts for these and other projects, Oman's Tender Board will look favorably on foreign firms represented in the country and firms having work experience in the Near East, especially in the Gulf. Oman expects foreign companies to contribute capital and management expertise and to maintain interest in the project after the construction phase.



For its small size, Qatar has significant oil and gas reserves supplying revenues for economic expansion in Qatar and other Arab states. Qatar does not have a formal development plan, but major projects are coordinated by the Council of Ministers. Industrial growth focuses on large-scale export-oriented industries using natural gas as feedstock or a source of energy. Emphasis is also placed on development of electric generating capacity, water desalting, port facilities, and social welfare programs (health, education, housing), which are provided free to nationals. Capital expenditures are up more than 40 percent from the total for the previous year. The increased funding will be spent on electricity and water projects, school construction, housing and gas projects.

Since 1973 the Syrian economy has been experiencing relatively high growth rates based on considerable foreign aid, the increased economic activity in the area and liberalization of its trade policy. However, economic growth in 1976 and early 1977 stalled due to expiration of the oil transit agreement with Iraq, which decreased foreign exchange earnings and increased oil import costs. In addition, Syria's involvement in the Lebanese civil war was a financial drain at a time when aid from Saudi Arabia and Kuwait was being curtailed. Given the reduced availability of funds, the development plan has been revised to direct the limited expansion in funds toward completion of projects already under way. Although Syria welcomes American enterprise to develop petroleum, phosphates, textiles and agriculture, supplier credits play a major role in purchasing decisions. Some financing for sales of U.S. goods and services may be available under the U.S. Agency for International Development (AID) program. AID loans to Syria are expected to be allocated for water supply, irrigation, highway construction, machinery imports, feasibility studies and technical training. In addition, agricultural products can be sold under the PL-480 program.

Due to rising expatriate worker remittances, the Yemen Arab Republic's imports this year may reach $1 billion from $500 million in 1976. Contracts for major projects are beginning to be tendered, consumer goods of all types are being sold and the need for services is critical. Yemen's development plan (1976/81) seeks to increase agricultural growth, stimulate exports, develop manpower resources, expand infrastructure, establish economic institutions and strengthen the private sector. Planned expenditures of $1.5 billion are allocated to housing (32 percent), transportation and communications (31 percent), agriculture (14 percent) and industry (10 percent). Despite increased foreigh exchange earnings, financial assistance from Arab States, other bilateral

sources and international lending institutions will be required to implement the plan.

U.S. exports to Lebanon, once a $400 million U.S. market, have not recovered from the effect of that country's civil war. But economic activity in the country is resuming and two loans totaling $38.5 million from the Arab Fund for Economic and Social Development offer opportunities for U.S. business. The first loan ($21 million) will be used for replacement and expansion of Lebanon's electric power network. The project includes high voltage transmission lines, technical services to prepare a new electricity law, design of a modern financial and managerial system for the Lebanese electricity authority and planning for future system expansion. The loan is expected to cover 57 percent of the project's total cost. The second loan will finance approximately 37 percent of the construction for a new basin at Beirut port. The project includes dredging, construction, purchase of equipment and engineering services.

Although Jordan does not produce oil itself, the Kingdom has benefited enormously from the Near East oil boom through increased assistance and investment from the Arab countries, large remittances from Jordanians working in the oil producing areas, and development as a regional business center.

The 1976–80 Five-Year Plan sets a high growth goal of 12 percent annually and aims at reducing Jordan's large trade gap and perennial budget deficit by developing productive sectors of the economy and increasing exports. Emphasis is on mining (mostly phosphates) and associated industry, agriculture and irrigation, tourism, and related infrastructure. Total investment during the plan is set at $2.3 billion.

The U.S. and six Near East/North African countries (Iran, Israel, Egypt, Saudi Arabia, Jordan and Tunisia) maintain close bilateral political and economic contact through Joint Commissions. Of special interest was the signing by President Carter on May 4 of the $30 million U.S. contribution to the Israel-U.S. Binational Industrial Research and Development Foundation (BIRD). The Foundation, an outgrowth of the U.S.-Israel Joint Committee for Investment and Trade, will promote non-defense industrial research and development activities of mutual interest and benefit to both countries. BIRD's activities are expected to result in development of and participation in new external markets, increased exchange of materials between the United States and Israel, and increased expenditures for goods and services in both countries.

For further information on these markets, contact U.S. Department of Commerce, CAGNE, Room 3203, Wash., D.C. 20230; 202-377-5341.

ISRAEL

Equipment, Expertise Is In Strong Demand

Israel's requirements for high technology machinery which can lower costs and increase production should result in expanded export opportunities for U.S. firms through 1977. Israel will need to import the capital goods and know-how necessary to achieve its goal of greater industrial output, according to G. Gayle Reichhardt of the Commerce Department Israel desk.

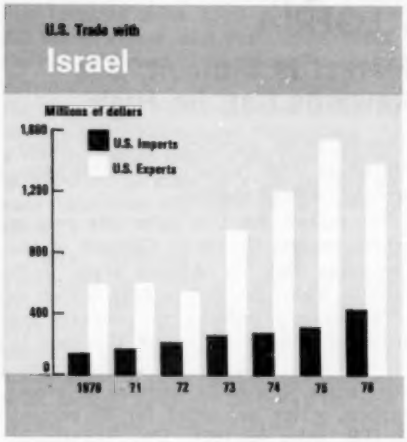
Since Israel was established, the United States has remained its largest supplier and best customer. Israeli exports to the United States in 1976 increased 42 percent over the previous year to $423 million. Last year U.S. sales to Israel reached $1.409 billion, which represented a 22 percent share of Israel's purchases from abroad. With Israeli imports increasing during the current year, the level of American exports should rise slightly. One factor favoring American sales to Israel is the U.S. Commodity Import Program (CIP). This program of U.S. aid requires that CIP funds be used by Israel to purchase commodities from the U.S. private sector at commercial rates.

American export products are facing heavy international competition, particularly from European suppliers. Europeans have the advantage of a closer location to Israel from which to supply spare parts and after-sales service. American business can offset these factors somewhat by appointing a reliable local representative who can provide after-sales service and support in addition to making sales.

A second European edge is the Israel-European Economic Community free trade agreement. As of July 1, Israeli industrial products enter the EEC duty-free. Israeli tariffs on manufactured goods of EEC-origin are being reduced in stages, to reach zero in 1989.

Israel's GNP increased only 1.3 percent in real terms during 1976, while prices rose by 38 percent. However, the Israeli Government made inroads toward improving the balance of payments account. The deficit on goods and services amounted to about $3.2 billion last year, $800 million lower than the previous year. Contributing to the improvement was a slight decline in imports and a 17 percent rise in exports. The Israeli Government continues to encourage increased production for export through programs of financial incentives and regular currency devaluations. Exports should receive an additional boost from the trade accord with the Common Market. Israel benefits also from the U.S. generalized system of preferences.

In light of Israel's duty-free access to foreign markets and the Israeli Government's program of fiscal and financial incentives available to foreign investors, American firms may wish to consider entering into licensing or joint venture agreements with Israeli firms. Foreign investors can also benefit from Israeli expertise in selling to Iran and certain African countries.



It is Israel's growing export industries which provide the best sales opportunities for U.S. firms, particularly in the fields of electronics, metalworking, chemical processing, and computers and peripheral equipment. Israeli manufacturers express interest in buying equipment for these priority industries and in purchasing the know-how they need to improve, expand and diversify their product lines.

Growth will be most rapid in Israel's electronics and metal industries. Best prospects for U.S. sales to the Israeli electronics industry include semiconductor production equipment, printed and integrated circuit production equipment, wiring assembly and other interfacing equipment, and test equipment for production and inspection of electronics products. Israel must import metalworking and finishing equipment and machine tools to satisfy demand for capital goods in its metals industry. The United States can best compete in sales of fully automated, more sophisticated types of equipment, such as high accuracy machine tools, electrical and laser welding machines, and metal cleaning, spraying and finishing equipment.

A law effective March 20 provides that agents selling equipment to Israeli defense agencies must now receive prior approval from Israel's Ministry of Defense before receiving any commission. If a commission is permitted, the Defense ministry then regulates the amount of the fee. Also beginning in March, goods entering Israel without an invoice listing the country of origin are subject to an import deposit of 10 percent. The deposit may be released only after presentation of a corrected invoice.

ALGERIA

Market Is Difficult, But Rewards Can Be High

Algeria offers significant export opportunities to those venturing into this promising but difficult market.

The outlook for U.S. sales this year is bright, reports Claude L. Clement of the Commerce desk for Algeria trade. U.S. exports, which dropped to $487 million in 1976 because of reduced grain imports, are projected to grow 25 percent this year to $610 million. Unfavorable weather conditions point to a hefty increase in cereal imports, which accounted for 30 percent of U.S. sales in 1976. U.S. exports of machinery and manufactured goods will also grow as large-scale projects, especially in the hydrocarbon sector, pick up steam. Algeria's total imports are expected to grow moderately this year and the balance of payments current account deficit probably will remain at about last year's level of $1.3 billion.

American firms must employ an alert and determined approach to the formidable cultural obstacles encountered in trading with Algeria. Some of these obstacles involve the unique character of Algerian economic institutions and bureaucratic organization. Frequently, it is simply a matter of language—virtually no English is spoken in this bilingual (French/Arabic) country. The potential rewards of trading with Algeria are substantial, but available only to firms willing to use their best talent and resources.

Algerian officials have made considerable progress in bringing under control the rapid and often unmanageable economic growth experienced during the first two years of the current 1974-77 plan. A program of investment stabilization, first introduced in 1976, has helped Algerian officials reassess development priorities and apply budgetary discipline to national contracting agencies in a successful effort to bring the economy back into balance.

The trend begun in 1976 toward a more balanced sectoral distribution of investment is accentuated in the 1977 budget. The bulk of the increase in capital expenditure is for non-industrial sectors, especially transportation, education and training, housing, infrastructure and regional development. This year's $6 billion investment budget indicates, however, that Algeria is still determined to maintain its development effort. The petroleum and gas sector, backbone of the Algerian economy, will absorb more than half of total investment as top priority is placed on construction of production facilities for liquefied natural gas.

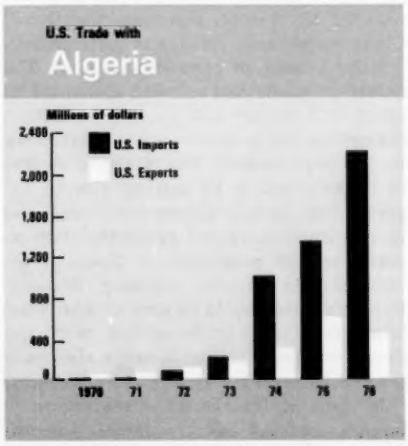
Algeria's economic and financial prospects beyond 1977 will be reflected in the Third Development Plan (1978-81) which is currently in preparation. Algeria's future depends upon three principal factors: the growth of hydrocarbon production and exports, the level and composition of investments, and improved efficiency in the economic system.

Prospects for the hydrocarbon sector, which accounted for 84 percent of exports and 30 percent of GDP in 1975, seem assured in both quantity and price. For example, the January oil price increase of about 10 percent brought the country some $500 million in additional export earnings. Hydrocarbon export receipts are projected to rise to $9.9 billion in 1980 and $18.4 billion in 1985 from an estimated $4.9 billion in 1976. On the basis of current sales contracts, earnings from exports of LNG may rise to $1.5 billion in 1980 and $5.6 billion in 1985.

Prospects for future industrial development look better as a result of the government's efforts to bring the level and composition of investment into line with the availability of financial resources and the need for sectoral balance. To insure better territorial balance in the future and provide the basic frame for regional development as a whole, an industrial belt is to be established from the west to the east of the country along the "Haut Plateaux."

Locations have already been determined for some of the vital elements of this plan, including aluminum production at M'Sila, an engine manufacturing complex (100,000 units a year) at Ain Oussers, a plant producing light trucks (34,000 units a year) at Tiaret, a foundry and a pump and valve factory at Berrouaghia, and a high-quality and special steels plant at Ain M'Lila. To these nuclei of heavy industry would be added a whole series of light industries (textiles, food, construction, materials and others) in all the urban centers of the region and some mining centers (Djebel Onk).

Some of the areas featuring promising sales prospects for U.S. firms include avionics, food processing and packaging, housing and construction, and data processing. Intensive development of the hydrocarbon sector will mean continuing opportunities for pumps, compressors, pipeline and pipeline equipment, gas recycling equipment, gas liquefaction facilities and oil rigs and tools.



EGYPT

Market Expands Despite Problems

In spite of continuing economic problems, Egypt is importing record levels of U.S. goods, thanks to large inflows of foreign assistance from the United States and oil-rich Arab states. U.S. imports to Egypt in 1976 grew 18 percent to $810 million and could increase as much as 38 percent in 1977 to $1.2 billion, reinforcing the U.S. position as Egypt's largest supplier, according to Kenneth R. Button, Commerce Egyptian affairs specialist.

Although Egypt's population of nearly 40 million makes it the largest potential market in the Near East, the country is still relatively poor and not yet a mass consumer market. The major export opportunities, therefore, are in sales of bulk foodstuffs and intermediate and capital goods. As development efforts progress, however, Egypt will become an increasingly attractive market for an expanding variety of U.S. manufactured goods.

Agricultural products have tended to dominate U.S. exports, and make up roughly 60 percent of total sales to Egypt. Key agricultural exports have traditionally been wheat, wheat flour, tobacco and edible oils. Since Egypt is a large net importer of food, the demand for these commodities will remain strong.

American capital equipment and machinery is highly regarded in Egypt for its sophistication and reliability. Among the most rapidly expanding U.S. industrial export categories are transport, textile, telecommunication, electric power generation, construction, and mining equipment and machinery.

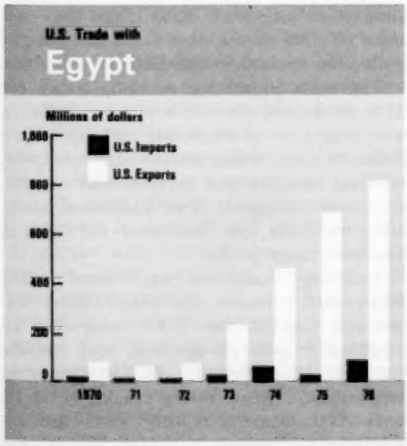
The market for U.S. industrial goods should continue to expand as Egypt begins in earnest the implementation of its long delayed 1976-80 Five-Year Plan. Egypt hopes that progress in dealing with financial and administrative problems will now permit it to achieve headway in modernizing and expanding its infrastructure and industry. Renovation of the telecommunication and transport systems is being given high priority, because of their importance in facilitating general economic growth. Industry is to receive about 19 percent of total planned investment. Half of this investment will be used to complete 88 industrial projects whose construction had previously been left un-

finished for lack of funds. Since Egypt's severe housing shortage represents one of its most pressing social problems, a major effort will also be made to rapidly expand housing facilities.

Although Egypt's economy continues to suffer from balance of payments problems, under-utilization of current industrial capacity, and a large government budget deficit, several positive trends encourage optimism as Egypt approaches 1980. Egyptian oil production, for example, has expanded to some 350,000 barrels per day (b/d) with prospects for output greater than 850,000 b/d by 1980. The important foreign exchange revenues from the Suez Canal, tourism, and worker remittances are also projected to grow substantially.

The U.S. Agency for International Development (AID) has one of its largest foreign assistance programs in Egypt and is playing a major role in accelerating the growth of U.S. exports. For FY77, $912 million has been allocated for a variety of U.S. assistance activities in Egypt, including import financing, capital project development, and technical assistance. The allocation for FY78 should grow to $1 billion, with plans to support Egyptian projects in telecommunications, grain storage, cement, port, and water and sewage development. The World Bank is also very active in Egypt, providing financing for a number of agricultural and industrial projects.

Although the AID program permits Egypt to purchase U.S. goods which it might not otherwise be able to afford, sales on regular commercial terms continue to expand. Because of Egypt's shortage of foreign exchange, however, the supplier's ability to provide financing is considered an important factor in assessing competitiveness. U.S. exporters are also reminded that Egyptian law now requires all foreigners to retain an Egyptian commercial agent when selling to the government.



The prospects for U.S. private investment in Egypt were brightened in May 1977, when the key investment law (Law 43 of 1974) was amended to remove several serious deficiencies, the most important of which related to foreign exchange restrictions. Various other administrative reforms have been announced which, it is hoped, will create an atmosphere drawing the needed large influx of foreign capital and technology. To date, however, very few U.S. firms have implemented investment projects in Egypt.

Upcoming trade promotion events in Egypt sponsored by the Department of Commerce include a building and construction equipment trade mission in October 1977 and a mining equipment mission in March 1978. U.S. firms will also participate in the American pavilion at the Cairo International Fair in March 1978.

IRAN

Strong Economic Upswing Seen Boosting U.S. Sales

The strong rebound of the Iranian economy during the past 12 months and excellent growth prospects for the remainder of 1977 make it likely that Iran will import close to $15 billion worth of machinery, foodstuffs and other commodities this year. U.S. exports to Iran (exclusive of Foreign Military Sales transactions), which dropped below $2.8 billion last year, are expected by Michel F. Smith, a Commerce trade specialist, to top the $3 billion mark again this year.

All sectors of the economy but agriculture registered healthy gains last year and contributed to a real GNP growth rate of better than 13 percent. Thanks to a severe winter in the West and export delivery problems in Saudi Arabia, Iran's oil exports posted unexpectedly high totals for the first quarter of this year, despite a brief hiatus in sales in early January when OPEC's temporary two-tier price system first went into effect. The recent restoration of price unity within OPEC brightens prospects for continued economic growth in Iran. Even with the possibility of zero growth in the dominant petroleum sector, however, an 8 percent real growth rate during the current Iranian year (ending March 20, 1978) appears likely, thanks primarily to continued rapid expansion foreseen in the industrial and construction sectors.

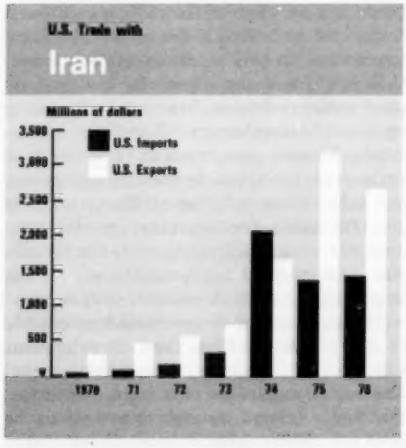
A jump in oil revenues in 1976, combined with decreased import spending, returned Iran's balance of payments to substantial current account and basic balance surpluses. By March 1977 foreign exchange reserves of the Central Bank had risen to $9.4 billion, equal to more than six months' import expenditure at the current rate. Oil sector earnings now around $20 billion a year, plus some external borrowing, will enable Iran to continue pushing economic and social development at the maximum rate consistent with the country's infrastructural limitations. As a result, Iranian imports are conservatively expected to grow at a 16 percent annual rate over the next three years at least.

Iran's "economic indigestion" of two years ago continues but with significant structural improvements. The horrendous back-ups in the ports are now only an unpleasant memory with ship turnaround times reduced to normal proportions and with customs clearance delays all but eliminated. Inland transportation is still a problem, but projects to expand Iran's highway and railroad networks enjoy top priority.

Telecommunications projects, in which U.S. companies will play a major role, will also be pushed as part of the Sixth Plan (1978-83), due to begin next March.

Uncertainty concerning the Iran Government's price, labor and tax policies is having a negative effect on private sector confidence, with the result that private capital investment is lagging. Severe shortages of trained manpower, particularly at the supervisory levels, hamper expansion at all levels. The most vexing economic problem facing Iran, however, is inflation. Consumer demand and expenditures continue to outpace the availability of goods and services. The overall inflation rate during the current Iranian year is forecast at 14 to 18 percent, although there is an expectation of some slowdown in the upward spiral in wages and housing costs—both of which have been well in excess of 30 percent a year.

Imports from the United States and other principal supplier nations have consisted primarily of machinery and transport equipment (e.g., automotive vehicles, aircraft, agricultural machinery, construction equipment, power generating equip-



ment, heating and cooling machinery, pumps and valves, and machine tools). In addition, the United States is Iran's principal supplier of wheat and other foodgrains, as well as an important supplier of chemicals and other industrial raw materials. U.S. shipments through May of this year were at an all-time high, making it appear that the U.S. is regaining the lead which it lost to West Germany last year.

In order to help maintain a strong U.S. market position in Iran, the Department of Commerce operates a Trade Center in Tehran which features a series of 25-exhibitor shows around a product or service theme, plus frequent individual company promotions. The facilities at the Center are also available at nominal cost to U.S. business visitors who need a temporary base of operations in Tehran, provided advance arrangements are made through a Commerce District Office.

Every fall the United States participates in the Tehran International Trade Fair, the largest event of its kind for Iranian and non-Iranian firms alike hoping to expand their penetration of this important market. In addition, as the market develops, the United States will participate in a growing number of specialized fairs organized by Iranian authorities.

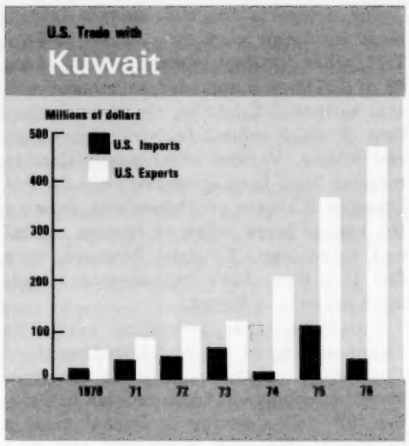
KUWAIT

Fast Pace Is Continuing; Variety Of Goods Can Sell

The United States is now the second largest exporter to Kuwait, with sales expected to grow from $472 million in 1976 to approximately $630 million in 1977, a 33 percent increase. Kuwait has also become the fifth largest U.S. export market in the Near East and North Africa, according to S. Dickson Tenney, a Commerce desk officer for Kuwait. Prospects for U.S. firms remain excellent as the economic boom, fueled by earnings from exports of crude and refined oil, continues.

U.S. firms are selling a large variety of goods and services to Kuwait, even though European and Asian firms are strongly competitive in this price-conscious market. U.S. products doing especially well include road motor vehicles, heating and cooling equipment, mechanical handling equipment, pumps, construction and mining equipment, electrical household equipment and tobacco manufactures. The market is also favorable for consumer goods, computers, recreational equipment, health service and medical equipment and, in the longer run, pollution control equipment.

The government disseminated an outline of the 1976/81 Five-Year Development Plan in 1976; however, because of internal dissension regarding its implementation, the final version is not expected to be released in the near future. Even if the



plan is not released, it is anticipated that the major goals will be followed. The government will allocate the greatest funds to housing and other social services because of its growing concern about deterioration or lack of social welfare facilities in the country. In particular, the government intends to construct 6,000 low- and middle-class homes yearly for the next five years, and it continues to provide low or no interest loans to individuals to finance their own housing. Most of the public housing contracts have been awarded to Asian firms because they are able to provide low-cost labor, but good opportunities still exist in this field for U.S. firms selling equipment to these projects. Many of the construction contracts for large social infrastructure projects such as hospitals have been awarded, but, while tenders for smaller projects such as schools will probably be won by local firms, opportunities still exist in these fields for U.S. equipment manufacturers.

Kuwait also budgeted sizable funds for industrial investment, much of which are to be spent on capital and energy intensive oil and petrochemical industries. Work continues on the large gas utilization facilities and either a new refinery will be built or an existing one expanded. Opportunities are bright for large U.S. construction and equipment firms.

Kuwait discourages labor-intensive industry because of a labor shortage, but encourages small import-substitution industries for products such as building materials, furniture, food and beverages, that involve high transport costs. Some of the smaller industrial projects are financed by loans from the Industrial Bank of Kuwait, in accordance with the government's policy of involving the private sector in potentially profitable markets.

Local firms want to sign joint venture agreements with U.S. firms to obtain the technical expertise and equipment needed to build larger projects. U.S. firms are advised to examine such pacts, as the government often gives preference to Kuwaiti firms bidding on tenders.

SAUDI ARABIA

Huge Expenditures Keep Economy Growing Rapidly

Fueled by huge expenditures on major infrastructure and development projects, the Saudi Arabian economy is growing vigorously, reports Peter Edmonds of the Commerce Saudi Arabia desk.

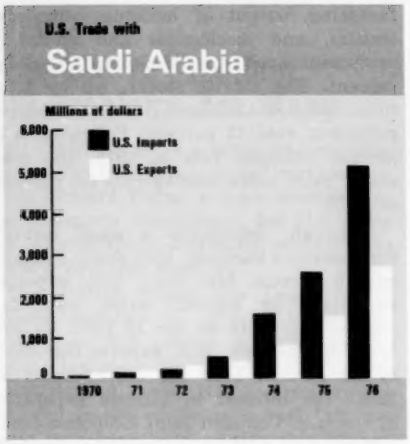
According to current estimates, Saudi Arabian imports of foreign goods and services will total $14 billion during 1977. U.S. exports to Saudi Arabia have kept pace with this expansion; during the first five months of 1977, $1.3 billion of goods were shipped, a 43.8 percent increase over the similar period in 1976. Exports for 1977 are projected to reach $3.5 billion, compared with $2.8 billion for 1976. These increases reflect the growing importance of the Saudi market to U.S. business, as well as the growing dependence of the United States on Saudi Arabian petroleum. At current import levels, one of every five barrels of petroleum consumed in the United States is of Saudi origin, and the import bill for Saudi oil will total over $7 billion for 1977.

Saudi Government expenditures under the Five-Year Development Plan (1975-80) provide the stimulus for the economy. The basic projects carried out provide additional government and private demands for goods and services. During 1977, the private sector is emerging as a significant market, especially for consumer goods and services.

The economic mood today in Saudi Arabia is one of confidence, compared to a year ago, when even completion of the Five-Year Plan appeared in doubt. The Saudi Government now feels that it has made the necessary reforms and administrative adjustments to proceed with the plan, which it insists will remain the country's basic blueprint for development. Evidence of this abounds in every part of the Kingdom; new roads, schools, buildings, housing, hospitals, as well as activity on such major projects as the new industrial cities of Jubail on the east coast, Yenbo on the west coast and the gas collection system in the Eastern Province.

The most promising markets today for U.S. goods and services are in the building and construction materials and equipment fields, water conservation and resources, medical supplies and services and communications equipment. Two additional promising markets are household furnishings and consumer goods.

Building materials and construction equipment remains the single most important market for U.S. exporters. To implement both government and private projects, the demand for earthmoving equipment, cranes, heavy trucks, tractors, fork lifts, cement mixing and batching equipment is enormous. Additionally, the



harsh climate in Saudi Arabia takes a hard toll of heavy equipment; thus the replacement market will be strong.

The favorable reaction to a U.S. water resources trade mission in January demonstrated the high degree of interest in water purification, distribution and recovery. At present, the price of water in Jidda is greater than the price of gasoline, and as the urbanization of Saudi Arabia increases even greater demands will be made on the few natural sources of water which are now available, forcing greater reliance on modern technology. A wide range of equipment is of interest to the Saudis.

Medical and health care equipment, especially "disposables," is in demand. The government's plan to increase hospital capacity by 11,000 beds forms a large market for equipment, disposables and furnishings. Due to a lack of trained personnel, an unrivaled market also exists for management of medical and health services on a turnkey basis. Institutional equipment for clinics and training facilities, in medical as well as other installations, is an allied market.

Saudi Arabia, due to its large expatriate community as well as a growing Saudi middle class with both the money and time to enjoy it, now constitutes a strong consumer market for both soft and durable goods—mainly for high quality products. Foremost in the consumer market are household furnishings, ranging from large and small appliances such as refrigerators, stoves and washing machines (especially those which conserve water and electricity) to rugs, drapes, floor coverings and furniture. A parallel need exists for office furniture and furnishings. Demand for modern office equipment, including communications systems, remains high and is expected to increase over the next three years. Finally there is a growing market for recreational goods, including sports equipment, even boats, and home entertainment systems such as video-tape equipment, which is increasingly popular in well-to-do Saudi Arabian households.

Despite the traditional preference that the Saudi buyer, both government and private, has shown for U.S. goods due to their quality and technical excellence, U.S. exporters are facing increasing competition in the Saudi marketplace. During the past year, new competitors have successfully entered the market.

In meeting the challenge, U.S. exporters will have to work extremely hard to preserve their current market share and to develop new customers. In selling to the Saudis, the U.S. exporter must develop personal acquaintance and relationships with his Saudi customer. The Saudi is not sold by mailings and catalogs. He makes a firsthand appraisal of the product, the manufacturer, and most importantly the representative of the company. Often his decision to buy is conditioned on his impressions of the U.S. business executive and his reputation. Thus, selling in Saudi Arabia requires a considerable investment of time and capital to develop and maintain contacts. Once established, these contacts can provide increased business in this ever expanding market.

UAE

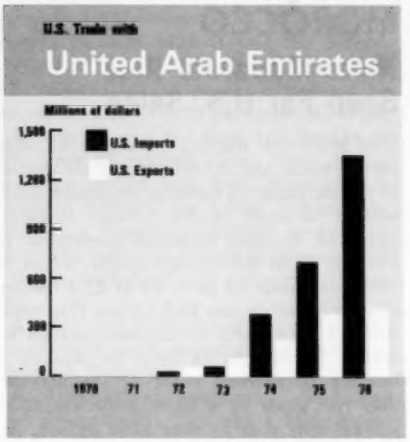
U.S. Services, Products Remain In Strong Demand

Demand in the United Arab Emirates (UAE) for most goods and services remains strong, according to Commerce Department trade specialist S. Dickson Tenney, despite a business slowdown which has been felt predominantly in the private construction sector.

U.S. exports to the UAE are projected to expand significantly, from $425 million in 1976 to roughly $540 million in 1977. Prospects are bright for sales of consumer products to the increasingly affluent local population and for consulting and contracting services. In addition, opportunities exist for equipment manufacturers willing to contribute feasibility studies for planned light industry projects in Abu Dhabi (one of the UAE's seven Emirates).

The construction boom of the past several years, fueled by almost unlimited bank credit and consequent large increases in the money supply, tapered off during 1976 and early 1977. The resultant decline in private building may reduce sales of U.S. construction machinery to the private sector. However, the underlying demand should remain strong, based on plans for huge industrial projects in the public sector.

There will be sustained demand for other manufactures which have been selling well in the UAE, namely, heating and cooling equipment, road motor vehicles, ships and boats, iron and steel products



and gas turbines. Other U.S. products in demand are consumer goods such as cigarettes, recreational equipment and private aircraft, but U.S. firms must expend considerable effort to develop these leads.

Big industrial complexes, Jebel Dhanna in Abu Dhabi and Jebel Ali in Dubai, along with infrastructural developments in each of the Emirates, represent the largest share of the UAE's overall economic activity; these undertakings have generally not been affected by the economic slump. U.S. firms are concentrating their efforts on these spheres, with prospects auspicious for consulting and construction firms bidding on a number of large and medium-size projects revolving around development of the new sites in the two major Emirates. Planning at Jebel Dhanna has finally moved off dead center; two major U.S. firms recently won contracts to design, engineer, and provide construction management services for two liquid natural gas plants and a gas gathering network. U.S. firms should be at an advantage in bidding on equipment sales for these projects, as the engineering-design studies are likely to specify U.S. standards. Other proposed projects include an ammonia/urea plant, a refinery, and infrastructure (port, airport, roads and housing) for a city which may expand to 85,000 inhabitants by the middle 1980's. Projects in Abu Dhabi City include expansion of the 15,000 barrels per day refinery and improvement of the transportation and telecommunications systems.

In Jebel Ali, construction has begun on a gas liquefaction plant, aluminum smelter and a 78-berth port; a steel plant and refinery are also under consideration. In Dubai City, work continues on the port, huge dry dock, giant trade center and cement plant. Sharjah is concentrating on improving business at its new containerized airport and port and on building a new container port at Khor Fakkan. Construction also continues throughout the Emirates on many new hotels; up to 4,000 new rooms are expected by 1980.

MOROCCO

More Moderate Rise Seen For U.S. Sales

The Moroccan market continues to offer fertile trade and investment opportunities in a wide range of fields to American firms willing to meet strong foreign competition and transact business operations in French. Total Moroccan imports, which in 1976 increased 4.9 percent to $2.7 billion, are projected to top $2.8 billion this year. While U.S. exports to Morocco jumped by almost 50 percent in 1976 to capture a healthy 10 percent share of the market, they will grow by a more moderate 12-15 percent this year to over $300 million, according to Claude Clement, a Commerce specialist in trade with Morocco.

Industrial investment, led by the government's progressive public investment program, is likely to rise by around 25 percent from the already high 1976 level, bringing the share of investment in gross national product to an impressive 30 percent. There has also been a return of activity in the Moroccan private sector, which is showing signs of increased confidence and renewed investment interest.

Morocco's ability to borrow abroad to keep its development program on track has been demonstrated by Spanish loans this year totaling $294 million, Japanese grants of $182 million in credits for the Nador steel works, and World Bank loans amounting to $80 million in recent weeks for the financing of both agricultural and industrial development. Also, French financial assistance to Morocco in 1977 will rise 20 percent to $240 million.

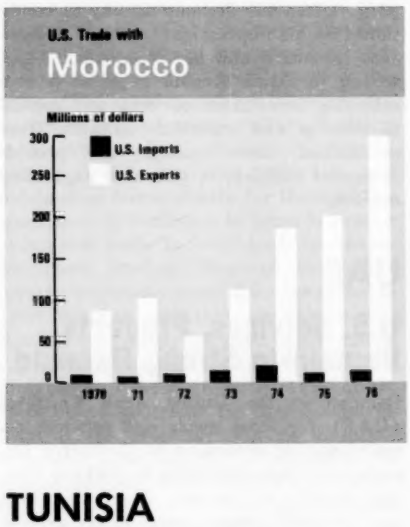
Morocco is moving ahead with a number of major projects which offer significant opportunities, including equipment for and construction of the $2 billion steel complex at Nador, construction of badly-needed cement plants (Morocco imported more than 600,000 tons of cement in 1976, with a possible doubling of this figure in 1977), erection of numerous educational institutions including expansion of the universities of Fes and Casablanca, and construction of a chemical complex at Safi. Extension of the SAMIR oil refinery and construction of a petrochemical complex at Mohammedia, fabrication of a textile complex at Oued-Zem, and expansion of Morocco's fishing fleet also offer opportunities.

The construction sector is booming and considerable planned housing is under way.

Near-drought conditions in the principal grain-growing regions of Morocco have already had a serious downward effect on this year's cereals harvest. Morocco's increased need for grain imports, which accounted for 30 percent of U.S. exports to Morocco last year, is a key factor in the continued expansion of imports from the United States this year.

Morocco's ambitious public sector investment program, combined with recovery in private sector investment, should sufficiently offset agricultural declines to result in net growth of real GDP. Depending on the local agricultural harvest and on world demand for phosphate rock, Moroccan GDP, which grew 14 percent to $8.8 billion in 1976, is expected to top $10 billion this year.

Investment opportunities in Morocco for manufacturing-for-export ventures were given a boost with the renewal of Morocco's long-term agreement with the EEC last year. Duty-free exports to the EEC of all industrial products in unlimited quantities are permitted.



TUNISIA

Economy, U.S. Exports Share Promising Outlook

U.S. exports to Tunisia are moving up strongly, and a record year is foreseen by Commerce foreign trade specialist Arthur Laemmerzahl, as Tunisia closes out one development plan and starts on another.

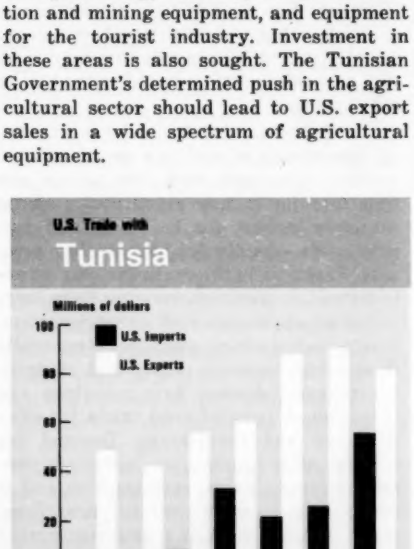
Virtually all indicators are positive for this progressive North African country. During the just-completed 1973-76 Four-Year Plan, Tunisia registered an average real growth rate of 99 percent, and provided for 163,500 new jobs—chiefly in the private sector. With a sound base of natural resources, a relatively sophisticated work force, access to international credit, and a burgeoning tourist sector, Tunisia should achieve the goals of its 1977-81 Five-Year Plan, offering significant opportunities to American suppliers and investors.

Results in the various sectors of the Tunisian economy in 1976 were excellent, and except for agriculture, where drought threatens 1977 production, favorable tendencies should continue in 1977. In manufacturing, output of building materials, textiles, and mechanical and electrical equipment each grew by more than 30 percent. The service sector, led by telecommunications, shipping and air transportation, rose 13 percent. Following a 9 percent inflation rate in 1975, the consumer price index rose by only 5.5 percent in 1976.

Although historically a small market for American business, with the U.S. share only 6 percent last year, U.S. exports, stimulated by aircraft sales, have increased markedly so far in 1977. In the first four months, U.S. exports increased by 52 percent over the same period of 1976. The interest in Tunisia generated by the U.S.-Tunisian Joint Economic Commission may account in some part for this favorable result.

Tunisia is a favorable location for regional offices of American firms doing business in North Africa and the Near East. It offers a friendly environment, a cost of living relatively lower than many other Arab countries, good communications, and, of course, the readily available capacity for translating and printing in Arabic. A number of U.S. companies have already established regional marketing bases in Tunisia, and a new offshore banking law has prompted several U.S. banks to open offices.

Developments offering opportunities for American engineering firms are strongest in the field of hydraulics, and include reservoir, water purification, and sewage projects. Exploitation of the Miskar offshore natural gas field could also benefit from U.S. technology. Opportunities for U.S. equipment suppliers include capital machinery for light industry (plastics, food processing, textiles), heavy construction and mining equipment, and equipment for the tourist industry. Investment in these areas is also sought. The Tunisian Government's determined push in the agricultural sector should lead to U.S. export sales in a wide spectrum of agricultural equipment.



IRAQ

Potential Is Excellent, But Problems Are Many

Iraq continues to be a large and growing market for foreign goods and services, reports Richard Burns, a trade specialist in the Commerce Department, but U.S. firms are encountering increased obstacles to trading with that country.

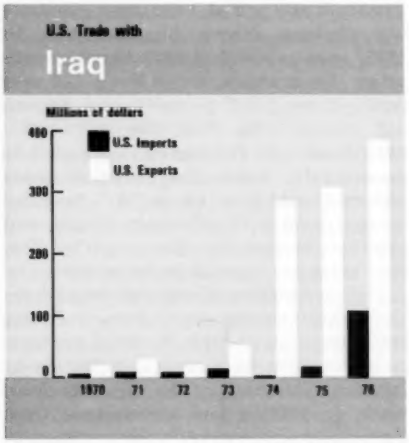
The United States was Iraq's fourth largest supplier in 1976; U.S. exports grew from $23 million in 1972 to $382 million last year. Since goods sold to third countries and re-exported to Iraq are not included in the statistics, actual U.S. exports may have been considerably higher, perhaps approaching $500 million. Due to a high level of aircraft sales last year, which will not be repeated this year, and owing to Iraq's increasingly strict interpretation and enforcement of Arab boycott procedures, which may result in discouraging all but essential purchases from the United States, exports may significantly decline in 1977 to around $195 million. High technology and specialized items, plus agricultural products, to the extent that they are obtainable in adequate quantity and quality only from the U.S., offer the greatest opportunity for sales.

Iraqi oil reserves may be the second largest in the Near East. With an estimated oil income in 1977 of around $10 billion, a substantial population, and potential for significant agricultural development in the Euphrates Basin area, Iraq has huge potential for more diversified economic development. The long-awaited 1976-80 Five-Year Plan has been approved and projects expenditures of about $49 billion, with emphasis on "human resources," agriculture, transportation, and communications, along with continued interest in industry.

Two trade missions, on water resources and electronics data processing, recently visited Baghdad, the first U.S. government-sponsored missions in a decade. Political problems remain, however, and diplomatic relations have not been restored. Further hardening of Iraq's already rigid boycott position may preclude imports of U.S. products that can be easily procured from other sources.

Iraq has a socialist economy and almost all importing is done by the government. Law No. 8 of 1976 severely limits the use of agents when dealing with state organizations and requires that all agency agreements be registered; the boycott provisions of the registration procedure have made it impossible for most American firms to register agents. U.S. firms may thus have to pay more frequent visits to the country, but the new visa policy requires companies to get an invitation from an Iraqi Government organization before a visa will be issued. Many firms have had problems obtaining invitations and new-to-market companies may therefore find it particularly difficult to make the initial market penetration.

One solution to this dilemma is to approach the market as suppliers or subcontractors to third-country firms undertaking projects in Iraq. Turkish, Yugoslav and Pakistani firms, for example, have won contracts totaling over $600 million in the agricultural-irrigation sector in the past year. There appear to be good possibilities to supply equipment or technology to these or other contractors on large projects.



LIBYA

Development Needs Seen Stimulating U.S. Exports

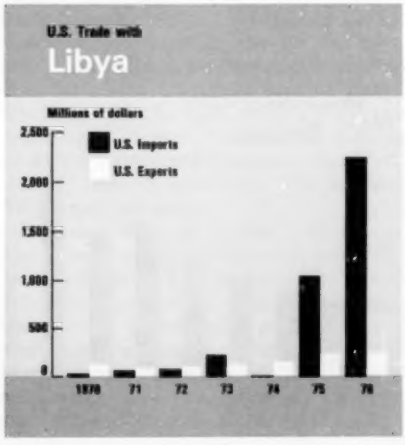
U.S. exports to Libya got off to a strong start in 1977, but year-end totals will probably show a more modest rate of growth, according to Arthur Laemmerzahl of Commerce's Libya desk.

Libya, which was recently officially renamed the Socialist People's Libyan Arab Jamahiriya, continues to have a bright economic outlook. Oil production is close to achieving the government's goal of 2.3 million barrels per day, a level sufficient to pay for Libya's ambitious development program as well as its normal import needs. Libya's major development goals can be briefly stated as self-sufficiency in agriculture and light industrial manufactures, looking toward the day when petroleum reserves become depleted. Major emphasis is also given to improvement and expansion of social infrastructure such as health care and education.

The Libyan Government has not encouraged a major increase in imports from the United States, and the U.S. share of the market has fallen considerably below its potential. Nevertheless, given the enormous imbalance in trade between the United States and Libya (U.S. exports to Libya in 1976 amounted to $276 million, imports to $2.24 billion) and the attractiveness of U.S. technology, an increase in U.S. sales is taking place. Stimulated by the export of two U.S. passenger aircraft, U.S. sales during the first five months of 1977 were 88 percent higher than during the same period last year. Financing is seldom a difficulty in Libya, but trading presents a variety of pitfalls to the unwary. The potential United States supplier is urged to proceed with patience and caution.

A brief sketch of opportunities in three sectors with good potential for American exporters follows:

- Agricultural equipment (including food processing): This has a high potential for U.S. export sales in Libya, since development spending on agricultural expansion is at a high level. A wide range of sales opportunities exist for farm equipment of all types, including tractors, irrigation equipment, agricultural storage facilities, pumps and piping.
- Construction equipment and building materials: An ambitious ten-year program aimed at ensuring housing for all Libyans provides for 340,000 dwelling units to be constructed by 1982. Earthmoving machinery, excavating equipment and power tools from the United States are well known, but there is room for more promotion of U.S. road construction machinery. Additionally, there are opportunities for the sale of plumbing and hardware, heavy-duty construction and earthmoving machinery, concrete and asphalt machinery, air-conditioning equipment, power tools, and prefabricated components.
- Health care equipment and instruments: As in the housing sector, the Libyan Government has allocated large sums for ensuring adequate health care for its citizens. The government has an ambitious hospital construction program and has made medical care free for residents of Libya. U.S. health care instrumentation and equipment has a high reputation with medical technicians practicing in Libya.



FAR EAST-SOUTH ASIAN ECONOMIES ARE GENERALLY BACK ON GROWTH TRACK

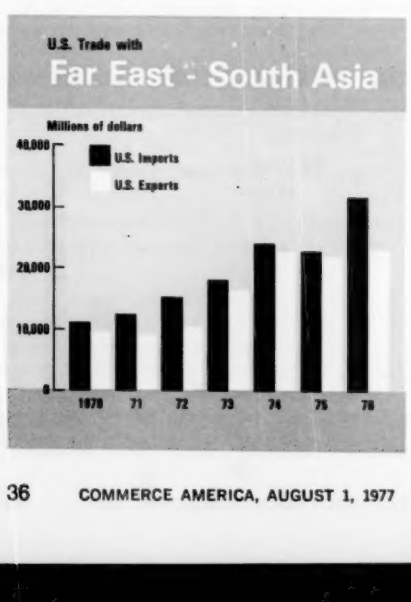
U.S. Export Prospects Favorable

Prospects for incremental sales of U.S. exports in the Far East-South Asian area are very promising. This year's U.S. exports are forecast to reach $26 billion, up 14 percent from the $23 billion reported in 1976, according to Ross S. Quan, a Commerce Department foreign trade specailist.

Spurred by the quicker pace of economic recovery in the United States and to a lesser extent, Japan and the EEC, two-way trade between the Asian-Pacific area and the United States last year reached $54.8 billion, an increase of 22.3 percent over the $44.8 billion in 1975. While U.S. exports went up nominally to $23 billion in 1976 from $21.9 billion in 1975, a gain of 5 percent, the resurgence of the American economy generated a disproportionate demand for petroleum, minerals, agricultural commodities and manufactured goods from the area. U.S. imports soared to $31.8 billion in 1976 which resulted in a record deficit with the area of $8.8 billion.

In terms of bilateral trade, the United States exported $10.1 billion of goods to Japan, our largest trading partner in the area, but imported $15.5 billion, leaving a U.S. trade deficit with Japan of $5.4 billion. Two other countries with which the United States registered high deficits were Indonesia ($2 billion) and Taiwan ($1.4 billion).

The Far East countries ranked as the third largest regional market for the U.S. after the Western Hemisphere ($41.1 billion—primarily Canada, $24 billion and 20 Latin American republics, $15.5 billion) and Western Europe, $32.4 billion. U.S. export sales to the Asian region were only $2.4 billion less than the $25.4 billion of American products shipped to the Common Market countries.



The area ranked as the second largest supplier of U.S. imports, behind the Western Hemisphere ($43.4 billion). Western Europe came out a distant third in selling $22.8 billion to the United States. Main imports from Asia were petroleum, rubber, iron and steel products, electrical and telecommunications equipment, motor vehicles, wood manufactures, clothing and footwear, and consumer goods.

Apart from Japan where the economic climate is still mixed, most other countries are showing strong improvements. In 1976, some established exceptional growth rates; for example, Hong Kong (16 percent), Korea (15.2 percent), and Taiwan (12 percent). In 1977, the outlook for growth rates in the region is expected to be generally lower. The favorable trade picture should keep up in 1977 provided energy costs hold relatively steady and external demand for the countries' foreign exchange earners is maintained.

The combination of renewed demand for traditional primary commodities and minerals coupled with tight financial management resulting in a general reduction in inflation rates has put the region back on track. In 1976, a fine performance from vigorous export manufacturing sectors of Australia and several other emergent nations greatly increased the sales of labor-intensive and non-traditional, capital-intensive goods to developed markets. Taiwan itself had a stellar increase of 52 percent in export sales in 1976 over 1975, although the outlook in 1977 is for a lower rate of export growth for the island. High export sales enabled a number of emergent nations to join the ranks of the developed countries in the area, Japan and Australia, in accumulating large foreign exchange reserves. Japan had an estimated reserve of $16.4 billion followed by (in billions) Hong Kong ($6.4), India ($4.2, highest in its history), Australia $3.4), Singapore ($3.3), Taiwan ($2.9), and Indonesia ($1.8), all of which offer potential purchasing power for U.S. exports.

Prospects for U.S. equipment

Government and business officials are aware that long-term inflows and foreign exchange reserves should be utilized in capital generative projects, infrastructure, and export-oriented industries. A number of national development plans worth billions of dollars in the Asian-Pacific area are being implemented. Given high priority are road, railway and transport systems, airport and port developments, communications, rural electrification, public works including housing and mass transit, and health care systems. Improved access to remote regions harboring valuable timber and mineral reserves, major sources of foreign exchange earnings, is particularly sought.

With large mineral deposits such as bauxite, iron ore, tin, zinc and copper still untapped, there are sizable markets for heavy mining and earthmoving machinery. A similar situation exists for vast stands of tropical hardwoods or teakwood. Prospects are good for timber harvesting, handling and processing machinery.

With population growing in the region, there is great interest in increasing food output. This attention from government officials augurs well for sales of agricultural, agro-industrial, and food processing equipment.

Metalworking and finishing equipment should have excellent sales possibilities. The scope of the regional market is large, since this equipment covers a broad range of industrial uses including fabrication of machine tools for shipyards and oilfields, aeronautics, motor vehicle manufacture and precision engineering.

Because of the rise in industrial activity requiring more technology and precision in the region, scientists and engineers will need process control and scientific instrumentation as well as electronics industry production and test equipment.

Developing countries are looking more toward capital-, technology-, or skill-intensive industries for the future and some offer preferential treatment for new foreign investment in them. At the same time, they expect to sustain growth in labor-intensive manufacturing sectors. To continue this trend, they will require the latest instrumentation at competitive prices. Having studied in the United States, many of their technical cadres are well trained and are knowledgeable about U.S. equipment. Process control instruments having sales potential include apparatus to measure, control and analyze liquids and gases.

Future trends

Due to the general increase in regional industrial activity and the consequent need for further foreign inputs, it is possible that some countries might consider easing their import policies. A few have already taken steps in this direction. Import liberalization in other nations could come about provided sufficient overseas demand exists for their exports in which foreign inputs are vital.

Over the next five years, it is likely that these countries will continue their efforts in diversifying their economic bases into non-traditional exports. In doing so, they expect to lessen dependence on traditional commodity exports for foreign exchange earnings and be less vulnerable to price fluctuations in the international market. It is also possible that more countries will

shift their emphasis in manufacturing from labor-intensive to capital-intensive industries.

American business should watch the development of the Association of Southeast Asian Nations (ASEAN), which consists of Indonesia, Malaysia, the Philippines, Singapore and Thailand. The organization is now seeking harmonious or complementary development of regional industries, a list of commodities that will benefit from intra-regional trade preferences, and improved access to outside markets for ASEAN's raw materials and finished products. Progress has been slow, but a clearer outlook for the group should emerge upon conclusion of a summit meeting in August at Kuala Lumpur. Regional industry projects still being studied are two urea fertilizer plants, one superphosphate facility, one diesel engine factory, and one soda ash plant. In 1975, imports purchased by the five member countries amounted to $23.8 billion of which $2.5 billion was supplied by members among themselves; $21.3 billion came from the rest of the world. U.S. exports to the five countries in 1975 totaled $3.4 billion.

The remainder of the countries in the area account for a smaller portion of United States trade and investment, with the exception of Malaysia. That country recovered strongly in 1976 with a GNP growth of 8 percent. Its exports of petroleum, primary commodities, and export manufactures brought in receipts which enabled $2 billion of foreign exchange reserves to be accumulated.

With the inception of the Third Malaysia Plan which calls for $17.2 billion in investment, sales prospects are good. Since the plan focuses on telecommunications, ports and harbors, power generation and highway systems, U.S. suppliers of this equipment should explore this market. U.S. exports to Malaysia may reach $590 million in 1977.

In terms of foreign exchange availability, interest in development and business, and volume of trade, the Far East-South Asian region offers a multitude of sales opportunities for the energetic businessman. American firms are advised to conduct in-depth surveys on markets which are often diverse and complex. The Commerce Department is prepared to assist with current information and its own available studies. When overseas, businessmen are encouraged to use Commerce's facilities in Tokyo, Taiwan, and Singapore, and the commercial services at the U.S. Embassies.

Finalized contracts can result only from aggressive promotion, flexible credit terms and financing, prompt after-sales service, timely delivery of spare parts, and well-planned training programs. The market is challenging, but effort and follow through can help in reducing the U.S. deficit with the region.

JAPAN

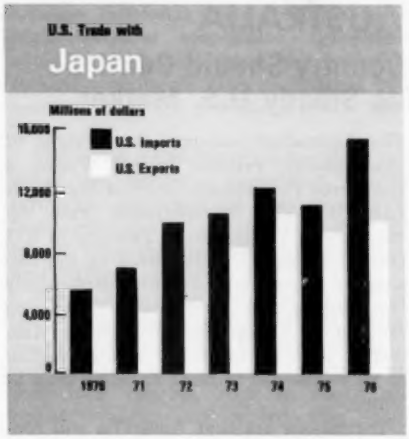
Moderate Economic Growth Rate Seen

A real growth rate of 6.7 percent has been set by Prime Minister Fukuda as the target for fiscal 1977 ending March 1978, on the basic assumption that consumer spending will increase about 14 percent and private capital spending by 12 percent, and supported by the moderate, for Japan, spring wage increases of less than 10 percent. The forecast also assumes that the consumer price rise will not exceed 8 percent and that there will be substantial investment in private housing. Based on these assumptions and Japan's growing awareness of the need to increase imports, U.S. exports to Japan could approach the $12 billion mark, Arthur Miyakawa, a Commerce desk officer for Japan reports.

The January-March 1977 quarter, the final quarter for fiscal 1976, showed the substantial real growth rate of 2.5 percent seasonally adjusted, compared with the previous quarter. This performance resembles that for the first quarter of 1976 when the economy expanded by 3.3 percent. Last year, however, the economy was unable to sustain this growth but for the whole year did grow by 6.3 percent in real terms. While current conditions appear more favorable than last year, questions still remain concerning the staying power of the economy to maintain a pace equal to an annual rate of 10 percent in real growth. In many respects predictions for full recovery because of the first quarter performance duplicate those of a year ago when optimistic statements were formulated.

Despite the Prime Minister's program of increased public works, an 18 percent larger fiscal 1977 budget, and the Bank of Japan's reduction of the basic interest rate to 5 percent, the government's Economic Planning Agency (EPA) has yet to concede that the recession is over. The government's present economic stimulation program, however, does appear to contain the essential ingredients to spur recovery but the overall spotty performance to date indicates strongly that the impetus has yet to affect a number of major industry sectors. For example, the average rate of capacity utilization is said to be in the 80-82 percent range while the country's industrialists contend that 90 percent is the rate needed if industry is to operate at a profit adequate to support heavier investments in new plant and equipment.

While support in the capital investment sector is soft, exports continue to increase rapidly but even those Japanese corporations enjoying massive export successes have disclosed to the Ministry of International Trade and Industry their fears that mounting overseas moves to employ protectionist policies, especially by the United



States and EEC countries, may cut back severely their shipments in the coming months. They expressed the belief that most of these restrictive measures would be adopted.

Under these conditions business confidence, while more buoyant than last year, remains a hoped for goal. Japan's January-May exports totaled $30.7 billion or 22.5 percent larger than for the same period last year. Many hard-headed Japanese businessmen, however, remain unconvinced that good times are on the way and fear renewed stagnation by recalling last year's downturn as the year progressed. These negative elements continue to influence the thinking and activities of Japanese manufacturers.

Because of the imbalance in the bilateral trade growth rate of 6 percent in U.S. exports to Japan and 27 percent in U.S. imports from Japan last year, the U.S. deficit with that country rose from $1.8 billion in 1975 to $5.4 billion, the largest in history.

Based on the January-May totals, the prospects are for an even larger bilateral deficit unless a more aggressive export effort is made by U.S. firms. While total trade for the first five months of this year exceeds that for the similar period of 1976, $11.8 billion and $9.9 billion respectively, our bilateral deficit is also larger, that is, $2.65 billion compared with $1.96 billion which, if continued at the current rate, would result in a deficit for the year of over $6 billion, an unprecedented figure. Furthermore, the U.S. share of Japan's total import market, including oil imports of $7.8 billion, continues to erode, deteriorating from 28 percent in 1966 to about 18 percent last year.

Japanese industry continues to emphasize greater productivity through automation, indicating that the best U.S. export sales prospects include such items as computers and peripherals, process control equipment, analytical instruments, automated materials handling equipment and a wide variety of high class durable and nondurable consumer goods.

AUSTRALIA

Country Should Continue As Steady U.S. Market

The Australian economy shows signs of improvement, reports Joseph Wilson, a Commerce Department international trade specialist. The unemployment rate declined from 5.8 percent in January to 5.17 percent in May. Developments on the balance of payments front are particularly encouraging, and the deficit there is being reduced to manageable proportions. Australian exports for the 11 months ending in May exceeded imports by more than $1 billion.

Indications are that Australia will continue as a good market for U.S. exporters, who sold a total of almost $2.2 billion there in 1976. Signs point toward a similar or slightly higher sales figure for the current year—perhaps $2.5 billion.

Facing a 1976 inflation of 14.4 percent (some reports are lower), Australia has cut its spending, is making every effort to hold wage increases to a level below the inflation rate and is restricting the growth of the money supply.

The major devaluation of late 1976, and the subsequent series of minor revaluations had the desired effect of reversing a worrisome capital outflow. It also had a significant effect on the nation's import and export prices. Australian statistics show a 15.9 percent increase in import prices in January 1977 over November 1976; however, as a result of several revaluations during the first part of the year, the increase dropped to 9.8 percent by March. The increase in value of the country's export receipts (May earnings were 24.8 percent above the figure for a year earlier) is partly due to the devaluation.

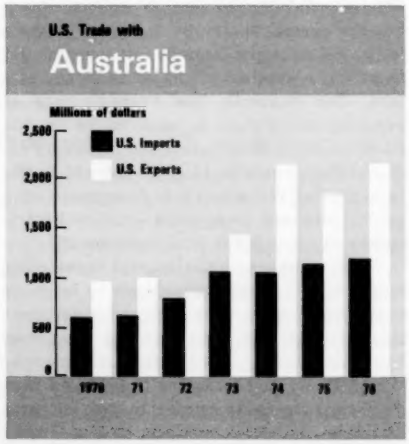
Production figures for 1976 show some improvement over the preceding year. Factory overtime rose to the highest level in two years. GDP figures are encouraging, with gross non-farm production for the last half of 1976 up 5.9 percent in constant prices over the first half. Farm production showed a 4.8 percent growth in constant terms. Total GDP reached $95 billion in current prices for 1976.

U.S. exports to Australia improved markedly during 1976. The total of $2,185 million showed a significant increase of about 20 percent over 1975. The U.S. share of the market increased marginally, to slightly more than 20 percent. Major increases were in the areas of industrial and production materials and equipment, including increases of $48 million in agricultural machinery and more than $40 million in motor vehicles and parts. Improved sales of chemical elements and compounds, paper, paperboard and manufactures, resins and plastic materials and power generating machinery were also recorded during the year. Prospects for the above categories will continue to be good. Also, the markets for mining equipment and machinery, construction equipment, professional and scientific instruments, and materials handling equipment should remain firm.

Major projects either in the beginning stage or on the drawing board include: aluminum smelters with a total price tag of more than $400 million; a liquefied natural gas complex which could include two offshore combination deepwater drilling and production platforms, 50 miles of submarine pipeline and about 1,000 miles of onshore pipe; mining projects having a total estimated cost of about $3.2 billion over a three-year period; auto and construction machinery plant expansions costing more than $35 million.

The Australian Government welcomes foreign investment for a wide variety of industrial development projects, particularly those in extractive industries. Government policy is administered by the Treasurer, advised by a Foreign Investment Review Board. The Board examines several types of proposals, including plans to establish a new business involving the investment of more than $1.2 million, plans to acquire 15 percent or more of an existing Australian company, acquisition of Australian real estate, and all uranium development proposals.

There are more than 675 U.S. companies represented in Australia. As some of these companies have established multiple connections with Australian firms, the total number of U.S. subsidiaries, branches and affiliates exceeds 825. According to a recent report from the American Chamber of Commerce in Australia, U.S. companies presently have an earning rate of 13.5 percent on their Australasian (includes New Zealand) investments, slightly higher than their 13.1 percent worldwide average earning rate. U.S. direct investment in Australia increased by 76 percent from 1969 to 1975, to $5.46 billion.



INDIA

Economy Gains Strength; Import Policy Is Eased

India's economy is stronger now than at any time during the past six years, reports Monroe E. Aderhold, Commerce trade specialist.

Prospects for continued growth and an expansion of international trade are enhanced by a dramatic improvement in India's balance of payments position. Foreign exchange reserves have grown steadily during the past 18 months, reaching an estimated $4.2 billion in June, the highest level since independence in 1947. The excellent balance of payments position, continuing financial support from the World Bank and countries committed to India's economic development, and a liberalized import control policy provide a unique opportunity for U.S. exporters of capital goods, technology, raw materials and supplies.

India is the major trading partner for the United States in South Asia. Two-way trade has increased steadily during the past six years; it reached $1.8 billion during 1976, and is expected to remain at approximately the same level during 1977. However, composition of trade will be somewhat different since normal crop yields are expected in India this year and wheat shipments, which represented about 49 percent of U.S. exports to India during 1976, will decline sharply. It is expected that India will import larger quantities of capital equipment and operating supplies this year.

India's economy should grow at a moderate 3 to 4 percent during the next few years. With good prospects for maintaining a favorable foreign exchange position, India has the financial flexibility to focus on economic development strategy. The new government has stated that more emphasis will be placed on the agricultural sector, encouragement to small and medium-size industrial enterprises and generation of employment. Moreover, the Janata government has indicated that it will place less emphasis on public sector industries and lift many of the economic controls which have encumbered the private sector in the past.

The new and substantially liberalized import policy is to remain in effect until March 30, 1978. Objectives are to provide end-users and registered exporters with the necessary machinery, commodities and services required to support export-oriented production, increase domestic production of essential consumer items and make existing production facilities more competitive.

More than 600 items of machinery and raw materials may be imported freely under open general license. These include machinery and equipment required for In-

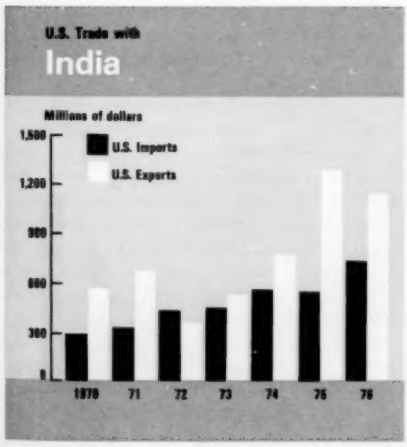
dia's leather, garment and jute industries, as well as an extensive list of drugs, chemicals and plastic raw materials, supplies and components for the electronics industry, specialty steels, spare parts, scientific equipment and supplies required for laboratories and hospitals, machine tools, synthetic fibers, edible oils and many other items. Manufacturers of products exported from India are given preferential consideration and are permitted to import practically any type of machinery and supplies required to sustain production and remain competitive in international markets.

The industrial sector is currently enjoying an upward swing, with a projected growth rate of about 8 to 9 percent. Indian exports, a particularly bright spot in the economy, have been increasing at a 10–15 percent rate during the past two years and will reach an estimated $6.5 billion during 1977.

The government has accorded high priority to the development of mineral resources, petroleum exploration and production, thermal power generation, and improvement of transportation and communications facilities. Petroleum related projects, for example, will involve an estimated $571 million, of which $471 million will be foreign exchange expenditures for exploration and production, pipelines, gas processing and oil stabilization plants, communications equipment and engineering services. Financing will be provided primarily by the Indian Government and a $150 million loan from the World Bank.

Comparable expenditures will be made for a wide spectrum of communications equipment, mining and construction machinery and other equipment required for priority projects. India is practically self-sufficient in capital equipment which involves low to medium technology. However, a good potential market exists in India for U.S. specialized machinery and products which incorporate the latest proven technological developments.

Trade promotion events scheduled for India include an electronic industry production and test equipment trade mission in January and a catalog show for printing and graphic arts equipment in February.



TAIWAN

Rapid Export Growth Keeps Economy Healthy

After attaining a real growth rate of 12 percent in 1976, Taiwan's economic growth will probably fall back to its historical rate of about 8 percent. The government's conservative fiscal and monetary policies are creating an enviable situation: virtually no unemployment, stable prices, high economic growth rates and a current account surplus in the balance of payments. The only shortcoming is the inability to raise enough capital to hasten ambitious development plans, adds William Zamula, a Commerce Department international trade specialist.

The health of the economy of Taiwan is attributable in great part to excellent export sales, which were up 52 percent in 1976 over 1975. Import sales increased by a hefty 27.5 percent over 1975 to bring the total volume of foreign trade to $15.7 billion, up 39 percent over 1975. The more rapid growth of exports enabled Taiwan to accumulate a $490 million current account surplus in 1976, compared with a $643 million deficit in 1975.

Japan is predominant in Taiwan's import market with a 32 percent share, versus a 24 percent share for the United States in 1976. Japan's share of manufactured imports was substantially higher, since Japan does not export food or cotton to Taiwan. Agricultural imports from the United States totaled $489 million in 1976 ($115 million in cotton), exceeding machinery imports of $423 million. Electrical equipment, $211 million, and chemical raw materials, $189 million, were the other major import categories contributing to $1.6 billion in U.S. products.

While U.S. exports to Taiwan appear to be running more than 20 percent above 1976, with a 30 percent share of the import market, U.S. imports from Taiwan are expanding at a similar rate from a far larger base. It seems likely that another billion-dollar deficit is in the offing in 1977.

Taiwan's imports show its progress in industrialization. Consumer goods make up only 7 percent of imports, while capital goods make up almost 28 percent and raw materials 66 percent.

Both U.S. exports and U.S. investment should have a banner year in Taiwan in 1977.

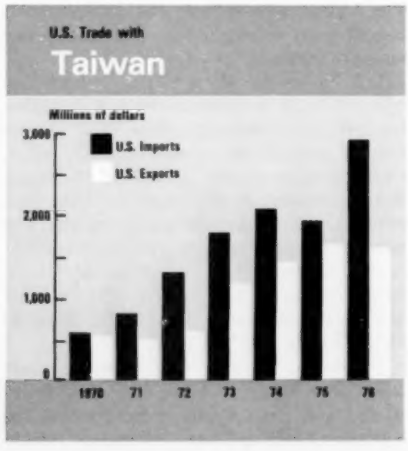
To foster technology and capital-intensive industries and to attract the foreign capital and expertise needed for its economic development plan, the government has introduced legislation extending tax holidays for foreign investments, liberalizing technical cooperation agreements with foreign parent firms, and excluding foreign investments from compliance with new profit-sharing provisions of the labor laws.

The basic metal, heavy generator, precision tool, electronic component, fine instrument, petrochemical and communications industries are among those that will benefit from the preferential treatment of new foreign investment.

The story is much the same for U.S. exports. Here the government has limited sourcing of a variety of products to Europe and North America. Some examples are motorized vehicles, such as buses, and sound recording and reproduction equipment. More generally, industries that improve the quality of Taiwan's exports, increase its scientific and technical base, improve its self-sufficiency in both raw materials and manufactured products, or improve its infrastructure will present the best opportunities for U.S. exporters.

The government has lowered interest rates and is attempting to provide more financial resources for small and medium-size firms to upgrade their equipment, and more investment on these firms' part will mean more imports of production equipment. Hopefully, these actions will promote the development of larger private firms; most of the large industrial developments to date have been under government auspices due to the large investments required.

As was noted above, U.S. exports to Taiwan have made substantial gains over last year, and if U.S. manufacturers can capitalize on opportunities in products such as building and construction equipment, electronics industry production and test equipment, medical equipment, energy generation and transmission equipment, packaging equipment, and pollution, process, and quality control equipment, the United States could increase significantly its share of Taiwan's imports. Events are scheduled for many of these products at the U.S. Trade Center in Taipei.



HONG KONG

More Moderate Pace Foreseen For Economy

The outlook for Hong Kong's economy remains bright, but slower growth is expected after the rapid expansion of 1976, according to Carol A. Murray, Commerce's Hong Kong specialist.

In 1976 Hong Kong rebounded from the 1974-75 recession with a 16 percent real growth in gross domestic product. This rapid recovery was due in large part to low inflation rates (about 3.4 percent), appreciation of the Hong Kong dollar in the exchange market and a substantial (43 percent) rise in exports.

Hong Kong is almost entirely dependent on imported resources. In keeping with the economic growth in 1976, imports rose by 29 percent to $8.6 billion, with Japan supplying 22 percent of the total; China, 18 percent; and the United States, 12 percent.

Main items purchased from the United States were electronic and electrical products and components; textile fibers including raw cotton; unset diamonds; air-conditioners; fruits and vegetables; textiles; and tobacco products.

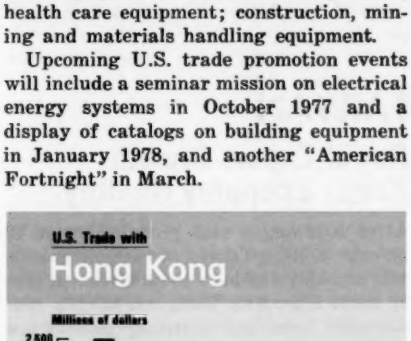
The Hong Kong economy is expected to slow to a more normal pace in 1977, as the rate of inflation rises by 5-6 percent and the labor force and productivity grow by a maximum of only 4 percent. Current estimates are that GDP will expand by 7 percent; export growth will be limited to 5-7 percent; and imports will rise by 10 percent.

The excellent 1976 economic results and continued confidence in future growth have spurred the Hong Kong Government to submit a record $1.65 billion budget for FY 1977–78, calling for increased government expenditures in a number of areas that will benefit foreign suppliers. More than $400 million has been allocated for capital expenditures on public housing, "new town" construction in the New Territories, and infrastructure development. The budget also reflects the government's commitment to expanded educational and medical services.

U.S. sales to Hong Kong, which increased by 38 percent to reach $1.1 billion in 1976, are likely to grow at a slower rate of perhaps 18 percent in 1977, reflecting the more modest growth of the Hong Kong economy. A continued need for raw materials and agricultural products and new trade opportunities offered by government projects and increased industrial development provide excellent potential for U.S. suppliers to increase their sales to Hong Kong.

Products identified as having the best sales prospects are: building supplies, fixtures and equipment; communications equipment and systems; laboratory, scientific and engineering instruments; business equipment; electronic components; health care equipment; construction, mining and materials handling equipment.

Upcoming U.S. trade promotion events will include a seminar mission on electrical energy systems in October 1977 and a display of catalogs on building equipment in January 1978, and another "American Fortnight" in March.



INDONESIA

U.S. Sales Weaken Despite Accelerating Import Growth

U.S. exports to Indonesia are weakening in 1977, despite the country's improved economic performance and increasingly strong import growth. In 1976, U.S. exports rose by 28 percent to more than $1 billion, with machinery and transport equipment comprising about 60 percent and agricultural commodities about 20 percent of the total. Some 14 percent of U.S. exports to Indonesia in 1976 were financed by Eximbank loans, estimates M. Virginia Webbert, country specialist for Indonesia.

In January-May, however, U.S. exports to Indonesia were 36 percent below their level in January-May 1976, while imports were 28 percent higher, with the trade deficit approaching $3 billion at an annual rate, compared with $2 billion in 1976. Oil continued to comprise about 80 percent of U.S. imports from Indonesia. Lower disbursements under Eximbank loans and possibly reduced expenditures of U.S. oil investors appear to be contributing to the 1977 export decline. Export opportunities continue to be excellent, however, for a wide range of products, especially agricultural, construction, mining, cargo and materials handling, and transportation equipment.

A U.S. exhibition of agricultural and timber production and processing equipment is scheduled for Jakarta Oct. 31–Nov. 4. Also, a new Commerce report *Indonesia: A Survey of U.S. Business Opportunities*, identifies many promising areas.

Indonesia's export earnings have recovered well from the setback caused by the worldwide recession, and import growth is accelerating due to better economic conditions. Central Bureau of Statistics (CBS) data show a 20 percent rise in exports to $8.5 billion in 1976 (with oil on a gross basis) compared with the 5 percent decrease in 1975. Oil comprised 70 percent of gross export earnings in 1976, compared with 75 percent in 1975, because of more rapid gains in timber, rubber, coffee, tin and other non-oil export earnings.

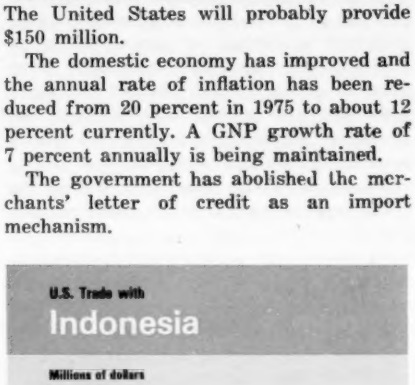
Due to rapid growth in the second half of 1976, imports reached $5.7 billion for the year, 19 percent higher than in 1975, according to CBS figures; the U.S. Embassy estimates actual imports at $7.8 billion. The United States had a 17 percent market share in 1976, trailing Japan with 26 percent and the EEC, 21 percent.

The medium-term outlook for continued trade growth is good. However, long-term export growth may be unfavorably affected by reduced exploration expenditures by foreign oil companies pending clarification of contract terms, uncertainties concerning the extent of Indonesia's oil reserves, and increased domestic oil consumption.

Indonesia's balance of payments improved markedly in FY 1976/77; international reserves rose by $1 billion to $1.8 billion at year-end (i.e., March 31). While relief from debt payments to meet the Pertamina crisis in 1975/76 was mainly responsible, higher export earnings and continuing foreign aid of some $2 billion contributed. In 1977/78, foreign aid of $2.1 billion is anticipated, about half from concessional and semi-concessional sources. The United States will probably provide $150 million.

The domestic economy has improved and the annual rate of inflation has been reduced from 20 percent in 1975 to about 12 percent currently. A GNP growth rate of 7 percent annually is being maintained.

The government has abolished the merchants' letter of credit as an import mechanism.



KOREA

Economy Remains On Steady Course

Midway in 1977 all indicators point to success for the Korean economy, according to Myra L. Triplett, Commerce's trade specialist for that country. However, performance will not approach the outstanding accomplishments of 1976, when GNP rose an estimated 15.2 percent in real terms. While the outlook continues to be favorable, the goal for 1977 has been set at 10 percent.

Per capita GNP, in current prices, rose from $532 in 1975 to $698 in 1976. The Fourth Five-Year Plan envisages a 9.2 percent average annual growth rate in GNP during the period 1977–81, with per capita GNP in current prices to reach $1,512 at the end of the period.

Total Korean exports for the first five months of 1977 reached $3,568 million, a 35.8 percent gain over the corresponding period of last year. Exports are projected to rise to $10 billion, with imports increasing to $10.3 billion—this will maintain the trade deficit at about $283 million. Korea's efforts to diversify its export markets, and thereby reduce excessive dependence on Japan and the United States, have been bearing fruit. These two markets, formerly accounting for roughly 70 percent of Korea's export-import trade, are now down to around 55 percent. The gap is being filled by major advances in such areas as the Middle East and the EEC.

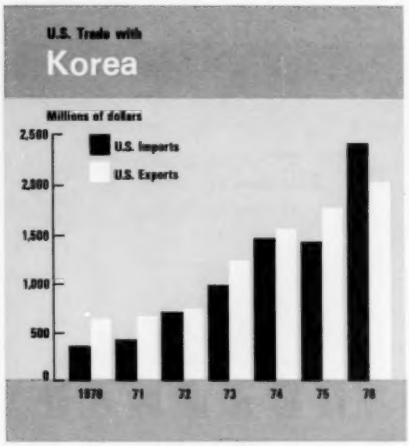
The backbone of Korea's economic performance is its success in the export market. The last decade has seen some shifts in the composition of manufactured exports, and a trend in the direction of more sophisticated, skill-intensive products. At the same time, more traditional, light-industry products, e.g., textile yarns, fabrics and clothing, have continued to expand, maintaining a share of at least 35 percent in total commodity exports.

One of the most encouraging aspects of 1976's economic performance was the control of inflationary pressures. The wholesale price index was 8.9 percent, while consumer prices stabilized at 11.2 percent. The goal for 1977 is to hold both wholesale and retail price increases to 10 percent.

Increases in employment opportunities remain a preoccupation of economic policy. During the past five years an estimated 2 million new jobs were created, boosting the country's total employment by 3.7 percent yearly. Even should 2.1 million jobs be created as envisaged under the plan and total employment be increased by 3.2 percent annually, the country's unemployment rate will remain unchanged at 3.8 percent.

The biggest problem confronting the government's economic planners is how to reconcile the rising expectations of expanded welfare and improved living standards with the limited potential for raising income and employment opportunities. This dilemma will probably face the authorities at least until completion of the current plan, when the government will have completed the planned expansion of the heavy chemical and munitions industries.

A value added tax went into effect July 1; it does not apply to goods produced for export.



NEW ZEALAND

Balance Of Payments Deficit Impedes Import Expansion

Despite record earnings for export sales, New Zealand continued to show a large balance of payments deficit for 1976, according to Joseph Wilson, a Commerce specialist in New Zealand trade. Receipts for exports totaled $2.9 billion, a remarkable 56 percent above the 1975 figure. The trade deficit was lowered to a sustainable $9.4 million compared with the previous year's $595.6 million; unfortunately, the invisibles deficit (foreign debt servicing, transportation costs and insurance, etc.) was $610 million.

The worsening in the terms of trade for New Zealand, i.e., the failure of the country's pastoral and forest exports to command as high a price in world markets as the materials and machinery it must import to service its industry and agriculture, indicates that the New Zealand market for exports from the United States and other overseas suppliers may weaken.

About 85 percent of New Zealand's export earnings come from meat, wool and dairy products. Although prices for these commodities rose significantly last year, the increases failed to match the rising costs of the country's vitally required transport and communication equipment, and materals used in production, including petroleum products.

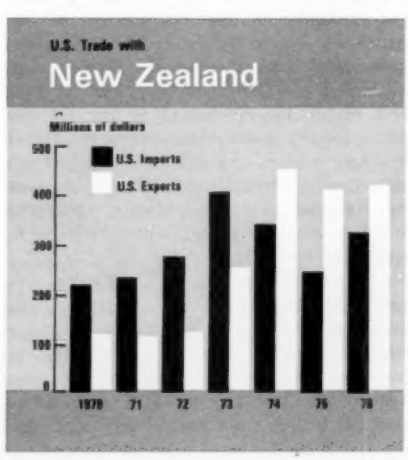
As the country must import all of its petroleum products, it has been particularly hard hit by price increases over the last few years. Petroleum imports account for about 16 percent of the import bill.

The government is expected to continue its efforts to curb domestic consumption and demand for imports. Concentrating on reducing inflation, which increased 15.2 percent in 1976, and correcting the balance of payments problems, the government will try to reduce its deficit in current spending and attempt to hold the wage and price lines. Best prospects for U.S. suppliers will derive from the government's policy of encouraging the growth of export-oriented industries, both industrial and agricultural. Examples are industries processing forest and agricultural products.

Other areas which still continue to represent a market for U.S. exporters include the petrochemical industry (a major project is under consideration), the transportation and distribution of natural gas and equipment for its utilization (New Zealand is tapping a major field of natural gas which lies offshore on the western side of the North Island), coal mining and power generation equipment. There is an active petroleum search being conducted offshore. Although no strikes have yet been made, some reports indicate significant potential.

There will also be continued requirements for artificial fibers and fabrics, synthetic rubber and rubber products, refined petroleum products, a wide range of organic and inorganic chemicals including plastics, fertilizers, insecticides, fungicides and medicinal and pharmaceutical products.

New Zealand welcomes foreign investors contributing technology or marketing skills which could have a positive effect on the country's industrial production and sharpen its export potential. A significant number of American companies already operate in the country, and there is an active American Chamber of Commerce.



PAKISTAN

Emphasis On Infrastructure As Economy Shows Upturn

Pakistan continues to be a good market for U.S. goods and services, observes George Paine, Commerce Department trade specialist. U.S. exports totaled some $394 million in 1976 and should top $400 million in 1977. The anticipated increase will depend on Pakistan's ability to implement numerous large-scale industrial and infrastructural projects under consideration by the World Bank Group, Asian Development Bank, and countries providing development assistance.

The trade deficit for 1976 is estimated at $975 million. However, increased remittances and disbursements of nearly $1.1 billion by aid donors will result in a balance of payments surplus of roughly $96 million.

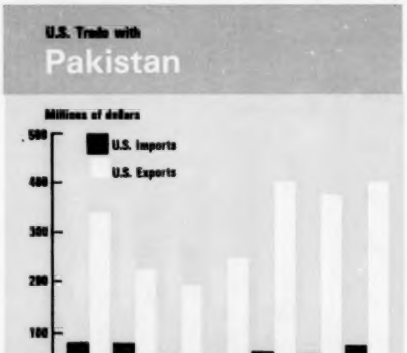
Foreign aid will finance most investments planned in Pakistan over the next few years. OPEC countries have contributed nearly one-third of Pakistan's external assistance during the past two years.

Pakistan's total merchandise imports during 1977 are likely to reach $2.4 billion, with exports in the $1.3 billion range. The United States is the leading supplier —its market share has averaged about 20 percent during the past five years. Trade deficits are expected to continue for the next several years and remain a serious medium-term economic problem. An increasing share of the country's exports is going to oil-exporting nations.

Pakistan's emphasis is currently on development of its infrastructure. A major undertaking is the Port Qasim project on the outskirts of Karachi to cope with growing demand for seaborne transport. Financing for this project is being considered by the Asian Development Bank. The cost estimate for the initial phase is $220 million, with $118 million allocated for foreign exchange expenditures. The World Bank Group has authorized loans for expansion of the gas pipeline of Sui Northern Gas, a fertilizer plant, two development banks, livestock development, improved seed production, electric power and major improvements in the Lahore water supply and drainage systems. Other projects under consideration include an oil refinery, several textile plants, at least two livestock projects, a cement plant and a polyester fiber plant, which will be financed by OPEC aid.

The best economic news for Pakistan in 1976 was the major oil condensate/gas discovery announced by Prime Minister Bhutto Dec. 21. Located in Dhodak in southern Punjab, the probable reserves are estimated at 200 million barrels of oil and 4-5 trillion cubic feet of gas. Approximately 3 to 5 years will be required to bring the newly-discovered oil to market.

Pakistan's emphasis on development of these projects affords American business many trade opportunities. Overall, the best export opportunities await U.S. manufacturers of chemical fertilizer machinery; railway, telecommunications, port, hotel, construction, transportation and food processing equipment; and items for natural gas distribution systems. Engineering and consulting services will be needed in connection with many large-scale projects.



PHILIPPINES

Economy Continues To Grow Moderately

The Philippine economy is growing moderately and the outlook is for GNP to increase at a real rate of 5–6 percent in 1977. Inflation meanwhile is expected to be held around the modest rate of 7 percent, adds Damon LaBrie, Commerce's trade specialist for that country.

The Philippine trade picture improved in the first quarter of 1977, largely due to an increased volume of sugar sales, as compared with the average quarterly deficit of 1976. First quarter exports were $645 million, imports, $795 million. The U.S. supplied $339 million of the latter. With expected continuing of balance of trade difficulties in 1977, the government is likely to be selective in import-related expenditures.

Continued Philippine growth is closely tied to economic upswings in the U.S. and Japan. Exports worldwide in 1976 were $2.574 billion, of which $883 million went to the U.S., which surpassed Japan as the primary market. Parallel imports were at $3.634 billion, with the U.S. second to Japan in supplying $819 million.

Agriculture and forest products continue to be the principal earners of foreign currency. Non-traditional exports expected to expand contributions this year are garments and textile yarns/fabrics, electrical and electronic components, machinery and transport equipment, and wood products.

The country continues under martial law, which supports an environment conducive for business. The Filipino business community remains generally confident and the daily life of the average citizen is not affected.

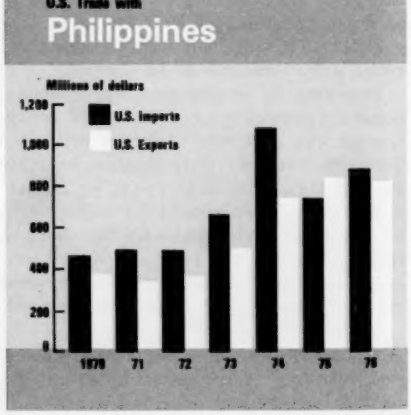
The Offshore Banking System, formally sanctioned in September, is designed to increase Philippine links with foreign lenders and facilitate the flow of desired investment into the Philippines. Numerous U.S. banks have been approved by the Monetary Board of the Philippine Central Bank to transact offshore banking business.

The Central Bank monitors all business transactions involving transfers of hard currencies for payment of overseas obligations through the issuance of letters of credit. U.S. business is cautioned to deal with importers in the Philippines only by letter of credit. Failure to follow this procedure may result in extended and possibly hopeless complications before payment is received. Philippine Customs authorities are meticulous in examining documents, and exporters must be scrupulous in following instructions.

A national budget of 27.4 billion pesos (US $3.7 billion) has been announced for 1977. With anticipated revenues of 23.9 billion pesos, the budget is somewhat expansionary, but the expenditure level may be reduced during the course of the year.

A tax treaty for the purpose of avoiding double taxation and preventing fiscal evasion by residents of the United States and the Philippines was signed on Oct. 1. The Laurel-Langley Agreement that expired in 1974 has not been discussed and it is unclear when talks on a successor treaty might resume.

The Philippines extends a welcome to industries classified by the Board Of Investments as "pioneer", "preferred", and "export-oriented". Industries so classified are offered tax holidays, liberal repatriation of profits, and high percentages of foreign ownership.



SINGAPORE

Steady Economic Growth Builds Up Import Demand

The United States was Singapore's second largest trading partner in 1976, with exports to the Republic of almost $1 billion. Prospects remain encouraging for the sale of U.S. equipment and services in 1977, according to J. Lee Barnes of the Department of Commerce.

The United States supplied about 13 percent of the country's imports in 1976. Major factors accounting for the strong U.S. sales include Singapore's continued economic growth and strong balance of payments position, the price competitiveness of U.S. products and the country's demand for capital goods.

GNP in 1976 in current prices is estimated to have increased 9 percent, with the outlook for 1977 even better as the world economy improves. Singapore's balance of payments showed a $293 million surplus in 1976, and total foreign exchange reserves reached $3.3 billion.

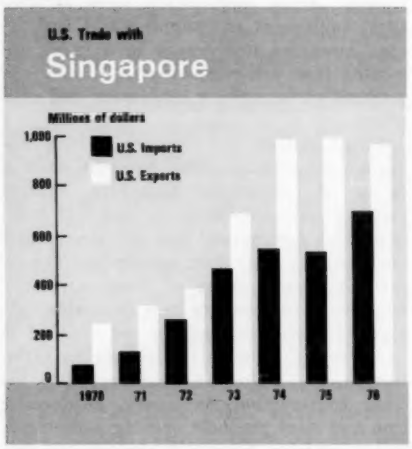
Singapore weathered the recession well and output is picking up, reflecting renewed foreign demand. The manufacturing sector is improving steadily, with the petroleum industry, Singapore's most important manufacturing group with over 41 percent of total output in 1976, posting a 29 percent increase. Oil refineries, although operating at only 50 percent capacity, are upgrading facilities, and the projected Sumitomo petrochemical complex will provide additional stimulus to the industry.

Singapore's Economic Development Board emphasizes capital intensive industrialization. As a result, the market for U.S. capital goods is expanding rapidly. Best prospects for U.S. goods exist in building and construction supplies and equipment, machine tools, pollution control and communications equipment, energy systems, process control and laboratory instrumentation, packaging and materials handling equipment, business machines, and data processing equipment. In addition, Singapore, with the second highest per capita income in Asia, has become an increasingly attractive market for U.S. consumer items. The market is competitive and very conscious of price, financing, delivery time and after-sale service.

When viewing Singapore as a market, the country's entrepot function must also be taken into consideration. The Republic serves as a regional shopping center, providing transportation, communication, financial and medical services for South Asia. It is also a center for the offshore oil industry and is used by many firms as a base for the supply of parts, equipment and services to customers in the region.

The U.S. Government's International Marketing Center in Singapore promotes the sale of U.S. goods and services through a variety of techniques, including product displays. Exhibitions featuring avionics equipment, electronic components, equipment for the communications industries and automated business and banking equipment are planned. Between regularly scheduled promotions, U.S. firms are invited to utilize the new, enlarged, Trade Center facilities, to exhibit products and hold sales meetings.

At least 25 U.S. banks with branches or representatives are currently operating in the Republic.



THAILAND

Good Showing By Economy Brightens Import Scene

After more than six months in office, the new Thai Government headed by Prime Minister Thanin Kraivixien appears to be firmly in control of the country. Student and labor unrest have been eliminated, a new investment law has been pas ' and the military has taken a more activ_ role in reacting to Communist incursions from Cambodia and Laos.

These moves by the government, coupled with Thailand's improved export sales of last year, have buoyed the current economic picture, according to Todd W. Burns, Commerce's country specialist for Thailand.

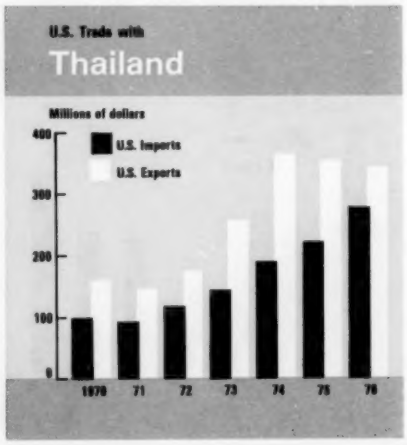
U.S. exports to Thailand last year were $347 million, down slightly from 1975. However, U.S. exports this year are running approximately 40 percent ahead of 1976. If current trends continue, total Thai imports from the United States could reach a half billion dollars for 1977. Thai exports for the first quarter of 1977 were up 15 percent in value over the same period in 1976. Most of the increase comes from a rise in the volume of agricultural exports.

The growth rate in GNP in 1976 was 6.2 percent and is projected to reach 7 percent this year. The trade deficit is likely to be higher in 1977, and there will be an increase in the balance of payments deficit from 1976's small $4 million. Foreign exchange reserves are up to $1.540 billion, slightly higher than 1976's figure of $1.480 billion.

The Thai Government has just passed a new Investment Law. An investment office has been established as part of the Board of Investment to encourage the inflow of foreign capital. According to the Board of Investment, which is headed by the Prime Minister, new investments have doubled over the same period in 1976 in both number and value. However, U.S. and Japanese investment is still flat. An encouraging note to potential investors is the settlement of the Billiton tin mining contract for offshore tin mining.

Under the new Fourth National Economic and Social Development Plan (1977–81), foreign loan requirements are $4.144 billion out of a projected total investment of $31 billion. Many projects under the new plan, particularly in agriculture and energy generation, have significant business potential for U.S. firms.

After the good year for Thailand just passed and what appears to be an even better year in 1977, there are many opportunities for U.S. sales. The major area of emphasis in the plan is on development of agriculture and agro-industries, along with rural electrification and irrigation. Sales opportunities are good for agriculture and food processing equipment, as well as products and services needed for planned development of the rural economy. Efforts to develop the mineral extraction and processing industry will create demand for prospecting, mining and processing equipment. Expansion plans of the Telephone Organization and the Electric Generating Authority will create sales opportunities for communications equipment and power generation and distribution equipment. There are also expanding markets for consumer goods, furniture-making equipment, hospital and medical equipment and hotel and restaurant equipment.



RECORD PRICES FOR KEY EXPORTS BRIGHTEN AFRICAN ECONOMIC SCENE

Francophone Markets Merit More U.S. Attention

Record prices for Africa's "brown gold"—coffee and cocoa beans—as well as favorable if less dramatic price movements in other commodities—palm oil, vanilla, wood products—have brightened the balance of payment pictures of a number of African markets, according to Sally K. Miller, Commerce's Marketing Manager for Africa.

U.S. exporters on the whole, however, have tended to focus their efforts on the more traditional markets of Nigeria and South Africa. Indeed, if it were not for the record increases in U.S. shipments to Nigeria, U.S. exports to Sub-Saharan Africa would have fallen below 1976 levels. Only haltingly are more U.S. firms becoming willing to explore and capitalize upon the marketing opportunities afforded by Africa's francophone markets. The particularly attractive markets of Ivory Coast and Cameroon are highlighted in the country articles that follow. Other francophone markets meriting attention from U.S. suppliers are Gabon, Senegal and Guinea.

The Gabonese economy, which has been booming for the past several years, is continuing to expand, stimulated by increasing earnings from oil, manganese, uranium, and forest products. Gabon's President Bongo has made several trips to the United States to encourage U.S. firms to become involved in projects in his country. Major projects offer opportunities in the areas of ports, railroad and air transportation, dams, and mineral development. Specific trading opportunities exist for heavy construction equipment, air conditioning, trucks and aircraft.

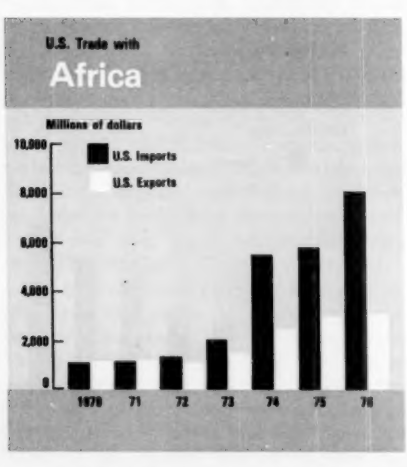
Senegal offers a steady half billion-dollar import market, of which U.S. suppliers furnish only 7 percent annually (roughly $40 million). Sales potential is strong for building and construction equipment, energy system, air conditioning and refrigeration, communications and navigation equipment and fisheries' supplies and equipment.

A smaller market but one which has just recently voiced increased official interest in purchasing from the United States is Guinea. Areas emphasized were agricultural equipment and supplies and fertilizers. American investment in a large upcoming iron ore complex should offer opportunities for mining equipment and supplies.

Three smaller (in comparison with Nigeria) English-speaking markets offer a range of commercial prospects. Liberia merits strong consideration from U.S. business. U.S. commercial ties are strong and our market penetration approaches 30 percent. A steady series of trade surpluses has placed the country in a favorable balance of payments position and enabled it to reduce significantly its debt service ratio. Best prospects for American products include construction machinery, reinforcing iron and steel products, mining equipment, motor vehicles, transport aircraft, electrical machinery and telecommunications equipment.

U.S. exports to Zambia are up slightly over 1976 levels—shipments through May totaled $21.5 million. While non-essential purchases remain stringently controlled, shipments of essentials for the mining industry, to which the United States has traditionally been a steady supplier, should be picking up as Zambia's intense foreign exchange bind eases. U.S. aid programs—including PL 480—have been stepped up and selected U.S. investors and suppliers are looking more seriously at several Zambian projects in mining and agriculture. These include a tailings processing plant, a eucalyptus plantation and accompanying sawmill, and proposed expansion of the sugar industry with a second sugar mill, as well as expansion at the Nakambala sugar estate. Additional fertilizer imports will also be needed.

Despite political unrest, curtailment of U.S. military sales and a near zero level of domestic and foreign private investment, Ethiopia continues to purchase increasing volumes of U.S. exports. Shipments through the first quarter were up more than 50 percent over last year. Among products with the highest sales potential in Ethiopia are: farm machinery, communications equipment, textile machinery, aircraft and ground suport equipment, road transport equipment, chemicals, fertilizers and business machines. Private markets for consumer durables and non-durables, including food and clothing, are strong, but U.S. opportunities in these areas (other than high-priced specialty items) may be limited because the Ethiopian market tends to be price rather than quality-conscious for these items. The Ethiopian Government has become the major client in many fields and has come to rely very heavily on tenders to select equipment suppliers. The importance of an effective local representative becomes a key element in such marketing situations.



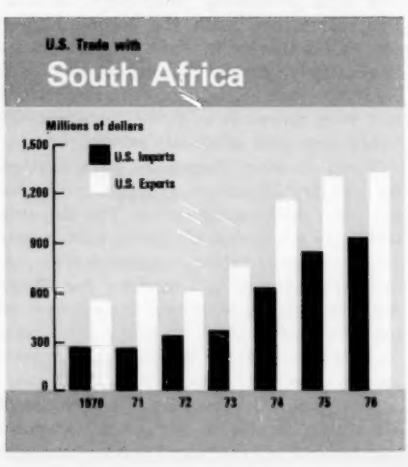
SOUTH AFRICA

Imports Are Down In Most Categories

U.S. exports to South Africa during the first five months of 1977 were running 8.2 percent below the level achieved last year. Declines have been registered in almost every category, with the exception of metalworking equipment, machine tools, and milled rice. The overall category of construction and mining equipment is down somewhat less than the average, which apparently indicates that the demand for mining equipment is still high in view of the depressed state of the South African construction industry, adds Philip L. Christenson, a Commerce trade specialist.

In January it appeared that an upswing in the South African economy could be expected during the last half of 1977 in response to increasing exports of minerals. Today's outlook is not quite so rosy. Although the performance of the mining sector and of minerals exports, especially non-gold mineral exports, has been within expectations, the continuing balance of payments deficit has created doubts as to the likelihood of an improvement in export sales to South Africa during the next six to twelve months.

Since August 1976, the South African Government has introduced a variety of import restrictive measures. The first step was a 20 percent import deposit scheme imposed in August. This lasted until February. In April, the government announced



a 15 percent "surcharge" on all import items not covered by a GATT commitment. In addition, the government reduced import permits for goods covered by the import permit system (approximately 40 percent of South African imports) by 30 percent. These measures have enabled the South African Government to reduce imports by 19 percent from 1976 levels, and thereby to obtain a surplus in the balance of trade for the first five months of 1977.

The balance of trade surplus during the first quarter of 1977 was not sufficient to offset the continuing deficit on the capital account. During the first quarter, foreign exchange reserves dropped $121 million. The trade surplus for April-May 1977 was $287 million, which will be sufficient to offset capital outflows at the first quarter rate, assuming a June surplus of modest proportions. If this situation recurs during the third quarter, the South African Government may decide to relax import restrictions.

Certain sectors of the economy still offer growth potential for U.S. exporters. Real growth continues in transport and communications, general government, and non-gold mining. Important new developments in the Northern Cape by Phelps Dodge Corp. and Gold Fields of South Africa will require an investment of more than $170 million.

The $2.3 billion SASOL II project remains on schedule. This "oil from coal" project will require a large volume of equipment purchased through international competitive bidding. Mining of the 40,000 tons of coal needed daily to feed SASOL II will require major purchases of coal mining, handling, conveying and processing equipment.

Very favorable weather has blessed the agricultural sector; maize exports will rise to $400 million, from $200 million last year. This may be translated into increased sales of U.S. agricultural equipment.

Television commercials will be introduced during January 1978. Demand for equipment and technical assistance for the production of commercials to supply this new advertising medium should be significant. The electrification of Soweto, the black township outside of Johannesburg, should release substantial demand for consumer electric and electronic goods which has been building over the years. Motor vehicle replacement parts are in good demand as owners seek to prolong the useful life of their vehicles in reaction to the economic situation.

General manufacturing continues to be depressed. Actual employment in manufacturing has declined 10 percent, and idle plant capacity now stands at 22 percent. The depressed condition of the manufacturing sector is creating growing concern and considerable pressures for some sort of import protection.

NIGERIA

Expansion Continues; U.S. Sales Near $1 Billion

Nigeria's imports from the United States may approach $1 billion in 1977, according to Reginald F. Biddle of the Commerce Nigeria trade desk. Nigeria's expansion continues at full steam, fueled by rebounding petroleum revenues, which totaled $8.6 billion in 1976. The United States ranks third in the Nigerian market behind the United Kingdom and West Germany. Currently, the United States supplies about 10 percent of Nigeria's import requirements.

Nigeria's GDP was more than $25 billion in 1976 and is expected to reach $28 billion in 1977. Petroleum accounted for roughly 40 percent of GDP in 1976; agriculture, fishing and forestry together made up another 25 percent. GDP in 1976 reflected a real growth gain of 10.3 percent over 1975. Projections for another 10 percent gain in 1977 rest on an expected increase of 15 percent in oil revenues.

On April 4, Nigeria's Federal Military Government unveiled the long-awaited revised Third National Development Plan for 1975–80. The total public sector rises to $68.4 billion. The increase in spending stems from inflation in project costs, the requirements of seven new states and a new federal capital, and more attention to the practical needs of the population at the expense of prestige projects. The revision does not list priorities; however, the largest plan increases are in transportation, communications, urban and regional planning and defense.

In introducing the federal budget for the new fiscal year beginning April 1, the government publicly confirmed earlier indications that it would return to large-scale internal and external borrowing to finance development.

A major development in Nigeria's external transactions in 1976 was its balance of payments deficit of $386 million. The government has reacted with a series of measures to reduce exchange losses. Insurance for Nigerian imports and exports must now be written by companies registered in Nigeria. Foreign-owned companies undertaking consultancy jobs in Nigeria may now remit only 50 percent of the contract fee as opposed to the former 60 percent. Limitations on dividends have been extended for a year.

Import prohibitions have been widened and upward tariff adjustments made. The following additions have recently been made to the list of prohibited items: champagne, lace, carbon paper, beer bottles, bottled water, madras, and cars above 2,500/cc engine capacity. Items newly placed under import license include common salt, carpets, furniture, matches, typewriter ribbons, canned beer and soft drinks, and passenger cars with engine capacity between 2,000 and 2,500 cc. Tariffs have been altered to further protect such local industries as tires, clothing, footwear, brewing and textiles.

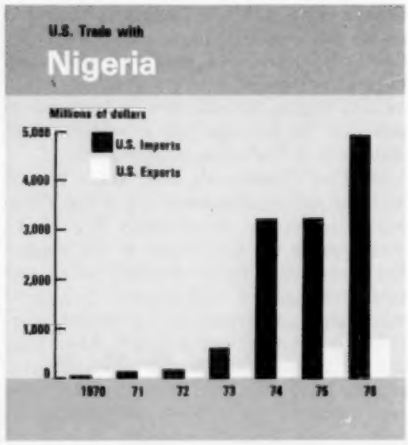
The Nigerian Enterprises Promotion Decree, outlining the second phase of indigenization, or Nigerianization, for businesses, was published in January. The three-schedule decree must be implemented by Dec. 31, 1978. A minimum of 40 percent Nigerian ownership is required for all enterprises.

The major potential for exports to Nigeria will remain in the field of machinery and transport equipment. The second largest import category is manufactured goods; promising markets in this field are iron and steel sheet, yarn and cement. The United States should continue to dominate in food exports to Nigeria, and another expanding sector is chemicals.

Water resources are receiving urgent attention and strong demand exists for related machinery and services. Sawmill and woodworking machinery sales are brisk. Communications equipment is much needed. Medicinal products accounted for $210 million in imports in 1976 and purchases should increase with the upward budget adjustments in the health care sector. Education programs are expected to get off the ground in 1977, with requirements extending from visual aids to teachers colleges to laboratories. Agriculture offers strong potential in all its segments.

Best prospects for U.S. exports to Nigeria, in addition to those above, include food processing and packaging equipment; graphic arts and printing equipment; energy systems; materials handling machinery and equipment; business equipment and systems; oil field and process plant equipment; and metalworking equipment.

In the remaining months of 1977, the Commerce Department will sponsor in Nigeria a catalog show on building equipment and supplies, trade missions on water resources and motor vehicle maintenance, and the U.S. exhibition at the Lagos International Trade Fair, Nov. 27–Dec. 11.



CAMEROON

Emerging Market Offers Considerable Opportunity

Political stability, a liberal investment code and nonrestrictive foreign exchange transfer policy, a progressive attitude toward private initiative and foreign investment, and an impressive record of growth since independence are contributing to the creation of an attractive business climate in Cameroon. Topping off a period of steady growth since 1974, U.S. exports increased 33 percent in 1976 and should pass the $60 million mark during 1977, according to Commerce trade specialist Philip Michelini.

Numerous trade and investment opportunities for American suppliers and investors are catalogued in the country's $2.9 billion Fourth Five-Year Development Plan covering 1976–81. A growing number of American firms are exploring the Cameroonian market, with over 100 now selling there and total U.S. investment likely to exceed $100 million by the end of the decade.

A prospering Cameroon economy fueled by increased revenues from sales of coffee, cocoa, timber, palm products, bananas, rubber, cotton and aluminum is offering many sales opportunities in 1977—a circumstance likely to continue in 1978 when Cameroon's first oil wells come into production. Import requirements are projected to expand at a 6.2 percent annual level through 1981—from $476.5 million in 1974/75 to $710 million (at 1976 prices) in 1980/81. Even if plan objectives are only partially attained, many new trade opportunities will emerge for American suppliers.

A decline in commodity prices and the terms of trade may restrict economic expansion toward the end of this year. A balance of trade gap approaching $100 million is a distinct possibility, but in the years ahead export diversification, increasing petroleum production and receipts from tourism should stabilize and augment proceeds from more traditional foreign exchange earners. While Cameroon has yet to match the economic performance of Ivory Coast or Gabon, its untapped, abundant natural resources, such as iron ore, bauxite and timber, provide it with tremendous potential to develop into a self-sufficient state with a first-class economy.

Most of Cameroon's total trade is still with the six original members of the European Community, particularly France. In recent years the U.S. share of the market has increased both in absolute terms and as a percentage of total imports. Industrial machinery and transport equipment, particularly tractors and aircraft, have been the most important items. Substantial increases have also been registered for mineral products, paper goods, foodstuffs, and textiles and textile products.

A number of opportunities currently exist for sales of forestry equipment, the supply of educational materials and school furniture, mining ventures, and the establishment or expansion of agri-business enterprises. A bevy of World Bank and African Development Bank-financed projects are likely to be tendered before the end of 1978. During FY 78 total U.S. development assistance is set at $10.6 million, much of it tied to U.S. sales.

Commerce will sponsor an agri-business technical trade mission in February.

IVORY COAST

Dynamic Economic Plan Will Require U.S. Products

Sustained by high market prices for its major export commodities, coffee, cocoa, and timber, the Ivorian economy during 1977 should maintain the excellent level of performance which has characterized what has been called "black Africa's model success story" since the early 1960s. Preliminary indications are that the GDP real growth rate in 1977 should approximate the 10.5 percent attained in 1976. Strong import demand could push sales of American goods and services to over $100 million this year, according to Philip Michelini, a Commerce Department trade specialist. Through May, U.S. sales were running 58 percent over last year's totals.

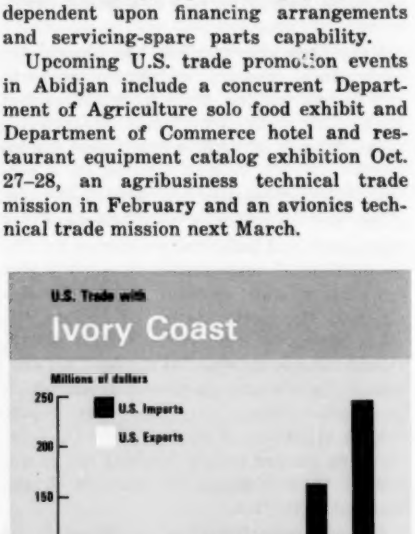
In January, Ivory Coast published its ambitious $6.6 billion Five-Year Development Plan (1976-80), which calls for massive new investments in infrastructure, export-oriented industry, and social development. France remains Ivory Coast's leading supplier and continues to regard itself as a fraternal benefactor, but President Houphouet-Boigny has said publicly that he does not want Ivory Coast to be a private French "game preserve." The United States is in excellent position to complement France's effort. American investment, trade, technical know-how, and aid are definitely welcome in Ivory Coast.

Important plan projects which will require massive foreign inputs of capital, services and materials involve ports, highways, airports, mines, tourist facilities, agricultural and forestry projects, urban development, and industrial plants. An increasing number of American firms are exploring the Ivorian market, with more than 200 currently marketing there.

Excellent sales opportunities will exist for American suppliers through 1978 for energy systems equipment, building and construction supplies and equipment, communications equipment and supplies, materials handling equipment, agricultural machinery, food processing and packaging equipment, business equipment and systems, textile and garment-making machinery, and aircraft, avionics and ground support equipment.

U.S. success in developing the Ivorian market will depend on how well current and potential U.S. suppliers, accustomed to a captive home market, can develop appropriate techniques of advertising and market promotion. The Commercial Attache of the American Embassy in Abidjan reports that U.S. firms in the consumer goods field have done well by using American marketing expertise to open up demand for household products, ready-to-wear fashions and processed foods. U.S. firms have done less well in areas where the customer is the Government of Ivory Coast rather than a private buyer. Firms frequently fail to appreciate the necessity of accommodating to a type of bureaucracy inherited from the colonial era. Sales of many types of equipment are dependent upon financing arrangements and servicing-spare parts capability.

Upcoming U.S. trade promotion events in Abidjan include a concurrent Department of Agriculture solo food exhibit and Department of Commerce hotel and restaurant equipment catalog exhibition Oct. 27–28, an agribusiness technical trade mission in February and an avionics technical trade mission next March.



KENYA

Economy Swings Upward; U.S. Sales On The Rebound

U.S. exports to Kenya may top $70 million in 1977, according to Mary L. Manley of the Commerce Department Kenya desk. Kenya's total import bill should reach $1 billion in 1977, up 20 percent from 1976. The anticipated upswing in U.S. exports will be in sharp contrast to the 10 percent decline to $43 million last year. On the rebound, U.S. exports of locomotives, aircraft and related parts alone could exceed $40 million in 1977.

U.S. exports in 1976 included telecommunications equipment, fertilizer, pesticides, insecticides, cereals, measuring and controlling instruments, photographic supplies, road tractors, agro-industrial machinery and equipment, and office machines.

This should be a banner year for the Kenyan economy. As a result of booming earnings in 1976 from coffee ($212 million), the leading export, and substantial receipts from other exports, foreign exchange reserves soared by an unprecedented 74 percent in 1977 to $486 million in mid-May. With record high prices for coffee counteracting the high cost of petroleum imports, a hefty balance of payments surplus seems certain for Kenya in 1977.

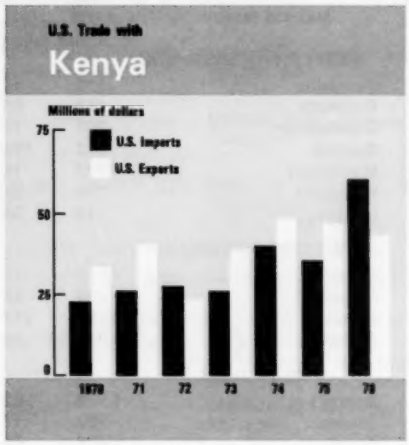
Given its greatly improved performance, the Kenyan economy is poised to recoup momentum in development projects which had been sacrificed in austerity budgets since 1975. A GDP growth rate of 6–7 percent is estimated for 1977, as compared with 5 percent in 1976 and 0.7 percent in 1975.

Concerned that the foreign exchange windfall from coffee earnings might overheat the economy, the Kenyan Government has imposed a tax on coffee and tea exports; increased the liquidity requirement for commercial banks; increased the aviation fuel tax; amended the income tax act to improve the equity of tax liability; and repaid nearly $26.4 million in external loans and $45.6 million in outstanding IMF drawings. As part of a long-term tariff reform program, a higher duty of 20 percent has been imposed on imports of aircraft, aircraft engines, maize, millet, and grain sorghum.

Major projects offering U.S. suppliers export opportunities include: the $100 million upper Tana River Scheme (hydroelectric power, earthworks, irrigation, water supply); the $80 million lower Tana River Scheme (Bura) for cotton, maize and peanut production; a $65 million extension of the Nairobi water supply system; and a $15 million geothermal energy project. Other sales prospects relate to $3.5 million in equipment requirements for a new wing of the Kenyatta National Hospital; low-cost housing for Nairobi, Mombasa and Kisumu; and a proposed integrated mini-steel plant.

The Kenyan Government sees possibilities for U.S. investment in the production of molasses-based yeast, caustic soda, sheet glass, reclaimed rubber, leaf springs, automobile components, paper mill strawboard, and animal feeds and fish processing.

U.S. Department of Commerce trade promotion events in Kenya during 1977 will include a water resources technical mission in October and a hotel, restaurant and catering equipment catalog exhibit in November.



SUDAN

Repeat Performance Seen For U.S. Sales

U.S. exports to the Sudan are expected to repeat their 1976 performance, rising a moderate 3 percent to $109 million in 1977. A 12 percent increase in U.S. sales is foreseen by Commerce Department trade specialist Mary L. Manley for 1978, as the Sudan's 1977-83 development plan gathers momentum. The fact that no new projects were launched during the final year of the former plan had a dampening effect on U.S. exports.

The value and volume of U.S. exports have been growing as suppliers become aware of the Sudan's enormous development potential. During 1977-83 the massive program of the Arab Agricultural Authority for Investment and Development (AAAID) in tandem with the Sudan's new $6 billion plan, will provide outstanding business opportunities. In the first phase (1976-85) of the AAAID Program, $3.9 billion is to be allocated for productive projects and $1.8 billion for infrastructure. Projects that will enable the Sudan to meet most of its Arab benefactors' needs for agricultural commodities and food products in 1986-2000 (the second phase) are to be emphasized. More than 20 percent of the AAAID's projects focus on improving transportation to open up areas for agro-industrial development. In particular, the Jonglei Canel being constructed through the Sudd swamp will shorten the inland water route, and provide access to the southern Sudan's vast forest resources by the mid-1980s. Development focus also is on mining and agribusiness.

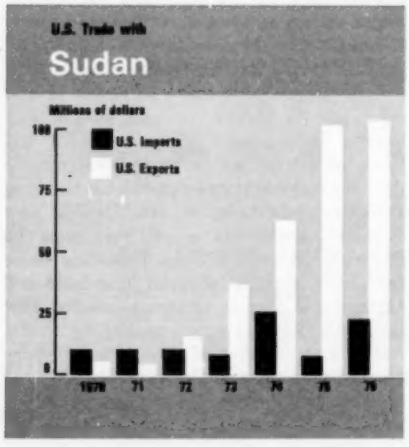
U.S. goods and services are becoming much more broadly based. In addition to burgeoning opportunities for exports of heavy construction equipment and agro-industrial machinery, sales potential has been increasing for road tractors, trucks, prefabricated housing and chemicals. Machinery and equipment for irrigation, telecommunications, sugar, textile and peanut processing and road, port and airport construction projects continues to be in strong demand.

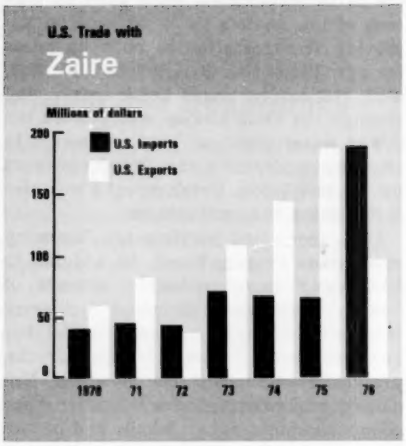
The many services required for Sudan's accelerating development needs will continue to expand the market for aircraft, river boats and ancillary products.

Current plans call for new airports at Port Sudan and Wau, a new terminal at Juba, and extensive improvements at Malakal. Communications, navigational and maintenance equipment is being purchased for all four airports. The new port planned at Suakin offers major sales opportunities for cargo handling and lifting and loading equipment. Prospects also are especially promising for food processing and packaging and edible oil processing machinery and equipment.

Foreign private investment in agricultural, industrial and commercial ventures is welcomed. Toward this objective, a Sudanese-American Business Council is being organized. The Sudan Government also has provided for incentives for private ventures. The thrust of new legislation has made clear that the government seeks to carry out flexible and attractive investment policies.

The U.S. Department of Commerce has scheduled a building equipment and supplies catalog exhibit for August 1977.





ZAIRE

IMF-Directed Reforms Could Aid Trade Rebound

Following a precipitous decline in exports last year, U.S. trade with Zaire should rebound in 1977 to a level approaching $110 million, according to Philip Michelini, who is a Commerce specialist in trade. Energetic trade promotion could push the total beyond that point, but an active attack on the 1975 record figure of $187 million in export sales likely will not occur before 1979.

Trade movements will depend upon the success which the Government of President Mobutu Sese Seko has in turning Zaire's economy away from its current depressed level to a phase of sustained growth similar to that enjoyed in 1972-74. Economic recovery will proceed provided there is successful implementation of a new International Monetary Fund-sponsored stabilization program requiring tough economic and financial reforms. Short-term relief will give way to long-term recovery and ultimate self-sufficiency, however, only if the breathing spell provided by international benefactors is underpinned by higher prices for Zaire's major source of income, copper, and diversification and growth of the commercial, manufacturing and agricultural sectors.

U.S. suppliers wanting to assist in and capitalize on Zaire's recovery efforts may benefit from recent changes which the Bank of Zaire has instituted as regards the nations' exchange/import control mechanism. According to the Bank's new directive, numerous goods may now be imported without license, including basic foodstuffs, certain essential household and agricultural items, pharmaceuticals, raw materials for industry, packaging materials, and industrial machinery spare parts. Import deposits previously required are no longer specified—a move which should also increase the propensity to import. The directive also includes a list of products which may not be imported, primarily private automobiles over 105 h.p. and luxury goods. In addition, the Bank has listed products produced in Zaire for which import licenses will be issued only if the local manufacturer is unable to meet demand. A final provision of the directive obligates the Bank of Zaire to take from the commercial banks the responsibility for paying for all foreign commercial payments in arrears. Meanwhile, U.S. creditors can still expect substantial delays in being paid.

Zaire's vast agricultural potential has been declared the nation's top development priority by President Mobutu, with many sales and joint venture opportunities likely to result. Commerce will sponsor an agribusiness trade mission in February.

U.S. SHARE OF IMPORTS INTO SELECTED COUNTRIES

Area and country	1975 Imports From world	1975 Imports From U.S.	1975 U.S. share	1976 Imports January through latest month: Latest month	1976 From world	1976 From U.S.	1976 U.S. share
	Million dollars		%		Million dollars		%
WESTERN HEMISPHERE							
Barbados	216	42	19.3	Dec.	237	54	22.9
Bermuda	162	69	42.6	(1)	(1)	(1)	(1)
Guadeloupe	307	14	4.6	Mar.	87	4	4.7
Guyana	342	102	29.7	Oct.	300	88	29.5
Martinique	327	14	4.3	Mar.	135	5	3.5
Paraguay	206	25	12.2	Dec.	220	23	10.2
Uruguay	516	54	10.4	Nov.	528	45	8.5
WESTERN EUROPE							
Cyprus	309	10	3.3	Dec.	433	24	5.5
Iceland	489	45	9.3	Dec.	470	49	10.5
Ireland	3,769	272	7.2	Dec.	4,192	355	8.5
Malta	378	30	8.0	Dec.	423	43	10.2
NEAR EAST							
Bahrain	1,189	92	7.7	Dec.	1,663	135	8.1
Jordan	733	77	10.4	Dec.	925	82	8.9
Oman	676	65	9.6	Sept.	489	(1)	(1)
Syria	1,685	109	6.5	Sept.	1,764	102	5.8
FAR EAST—SOUTH ASIA							
Bangladesh	1,297	361	27.8	Dec.	882	144	16.4
Burma	170	13	7.3	(1)	(1)	(1)	(1)
Fiji	269	11	4.1	Dec.	261	11	4.4
New Caledonia	359	16	4.3	Sept.	200	(1)	(1)
Papua New Guinea	532	47	8.9	Mar.	109	10	8.9
Sabah	424	2 31	2 7.3	Nov.	412	42	10.2
Sri Lanka	745	48	6.4	Dec.	554	45	8.1
West Malaysia	3,118	333	10.7	Dec.	3,353	405	12.1
SUB-SAHARA AFRICA							
Burundi	62	3	5.0	Dec.	58	3	4.8
Central African Empire	68	2	3.5	(1)	(1)	(1)	(1)
Chad	2 138	2 8	2 5.9	(1)	(1)	(1)	(1)
Ethiopia	311	23	7.3	June	358	25	6.9
Gambia	59	2	3.2	July	46	2	5.1
Ghana	791	128	16.1	Aug.	560	(1)	(1)
Liberia	331	104	31.4	Dec.	399	(1)	(1)
Malawi	250	9	3.5	Dec.	206	7	3.4
Mauritius	332	17	5.1	June	175	6	3.7
Mozambique	410	22	5.5	(1)	(1)	(1)	(1)
Niger	102	12	12.2	(1)	(1)	(1)	(1)
Reunion	410	5	1.2	Mar.	107	1	0.5
Senegal	581	42	7.3	June	422	(1)	(1)
Sierra Leone	186	2 14	2 7.3	June	75	(1)	(1)
Tanzania	771	96	12.4	Dec.	622	36	5.8
Togo	174	79	4.5	(1)	(1)	(1)	(1)
Uganda	199	4	2.1	Dec.	143	5	3.4
Zambia	1,138	142	12.5	Oct.	671	73	10.9

Note: The selected countries are those whose total imports were valued at $50 million or more in 1975 and are not covered in the country articles in this issue. Other countries meeting this criterion were omitted for lack of data. In order to present comparable statistics for all countries, import data have been adjusted from an f.o.b. to a c.i.f. valuation for Papua New Guinea and Zambia and for Paraguayan imports from the United States.

1 Not available. 2 Estimated from partial year data.

Sources: Official trade statistics of listed countries. International Monetary Fund, International Financial Statistics.

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